



Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

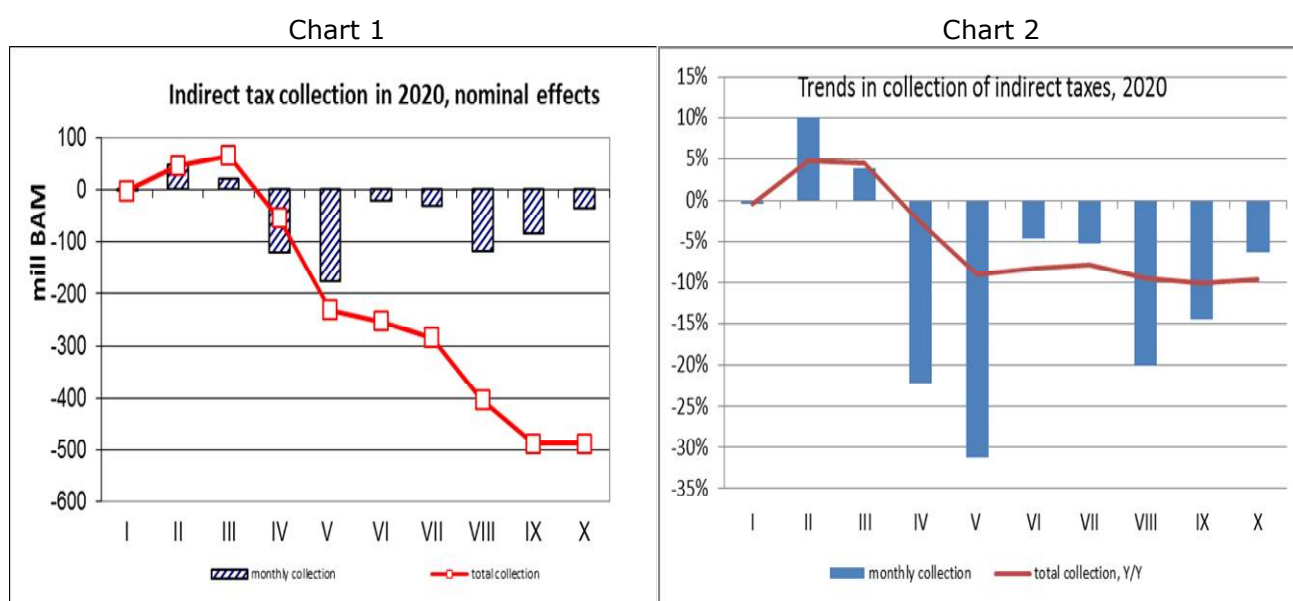
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With this issue

According to the preliminary cash flow report, in October 2020 ITA collected 652.1 million KM of gross revenues from indirect taxes, which is 57.6 million KM less than in the same month in 2019, or 8.1%. Refund payments were lower by 20.9 million KM, which partially mitigated the decline in gross collection. At the monthly level, 36.7 million KM of net revenues were collected less than in October 2019 (Chart 1, "monthly collection"), i.e. by 6.3% (Chart 2, "monthly collection"). According to the preliminary ITA report on collection by groups of bank accounts, the largest decrease in revenues of 55.2 million KM was recorded in the group of accounts for payment of revenues from imports (VAT, customs, excise duties and road taxes), followed by excise duties on imported tobacco products 16.2 million KM, while in the group of revenues on which domestic VAT and excise duties are paid in the country, more 14.3 million KM was collected compared to October 2019.



Although October 2020 recorded a smaller decline in the collection of indirect taxes than in the previous two months, this did not significantly improve cumulative trends. In the period January - October 2020, gross collection was lower by 666.8 million KM, while refund payments were lower by 144.1 million KM. Ultimately, net collection decreased by 522.7 million KM (Chart 1, "cumulative"), or by 9.6% (Chart 2, "cumulative").

Dinka Antić, PhD
Head of Unit

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Technical design: Sulejman Hasanović, IT expert
Reader/translator: Darija Komlenović, professor

Revised projections of indirect taxes for the period 2020-2023

Summary

The coronavirus pandemic will have tremendous consequences on economic activity worldwide.

According to the World Health Organization, by mid-October, over 37 million people in the world were registered with the new coronavirus, with over a million deaths. Almost 7 million people were infected in Europe (WHO, Situation report, October 12, 2020). The crisis caused by the pandemic of the virus is quite different from the previous crises that economies have encountered. As in the case of wars or political crises, there is tremendous uncertainty about the duration and intensity of the pandemic shock. In addition, economic policy plays a much different role in current conditions than in previous crises. In "normal" crises, policymakers try to stimulate aggregate demand as quickly as possible. In the present case, the crisis is largely caused by much-needed containment measures. A large number of countries have implemented various measures to stop the spread of the virus: closing borders, closing schools and kindergartens, quarantines, isolations, travel restrictions, social distancing measures, etc. On the other hand, governments have also started measures to save the economy, such as tax reliefs, measures to preserve jobs etc. By the end of April, some countries had already announced or started relaxing the measures. Huge uncertainty in the economy due to the pandemic has led to a delay in investment in the economy. On the other hand, there was a decrease in private consumption due to the measures to combat the virus, and because of job losses or increases in savings due to precautions in the conditions of increased possibility of such an outcome.

The economic consequences of the coronavirus pandemic are such that it will take years for the world economy to recover.

The economic consequences of the coronavirus pandemic are such that it will take years for the world economy to recover. The coronavirus pandemic will have huge consequences for economic activity around the world. Since the beginning of the pandemic, the European Commission (EC) and the International Monetary Fund (IMF) have been continuously revising their economic growth projections. In their latest announcements they estimate a significant decline in economic activity in 2020. The EC report from July 2020 states that the European Union is facing the deepest recession since the Second World War. The report estimates a real decline in GDP of 8,7% in 2020 in the Eurozone. The latest IMF projection (October this year), of GDP decline in the Eurozone is slightly lower and amounts 8,3%. Given the current circumstances, most reports of international institutions state that there is a higher than usual level of uncertainty regarding the realization of projections, emphasizing the high risks of projections, with the risks of worse outcome prevailing. The level of uncertainty is related to the duration of the pandemic, the possibility of the next wave, and the effects of the implementation of government measures.

DEP estimates the real decline of the B&H economy at 3,0% for 2020 and recovery in the coming period

The Directorate for Economic Planning (DEP) estimates the real decline of the B&H economy at 3,0% for 2020 while for 2021, 2022, and 2023, growth rates of 2,5%, 3,1%, and 3,4%, respectively, were projected. DEP's projections are based both on the projections of international institutions and on the assumption of improving the epidemiological situation, which would stabilize the economic situation in the country and abroad in the coming period.

At the level of nine months of 2020, the net collection of indirect tax revenues was lower by 10%

In the first three months of 2020, there was recorded an increase in gross revenues and minimal oscillations in the refund payment. After the closure of borders and the economy, there was a sharp decline in gross collection, which was somewhat mitigated by a reduction in refunds. Some improvement that occurred in June and July was annulled by decline in gross collection in August and September, and increased refund payments in September. At the level of nine months of 2020, the gross collection of revenues from indirect taxes was lower by 609,8 million BAM, while refunds were lower by 123,2 million BAM. Due to the decrease in refunds, the decrease in cumulative net collection was significantly smaller compared to the decrease in gross collection, and amounted 486,6 million BAM, which is a decrease of 10%.

MAU estimates the decline in indirect taxes at a rate of 10,9% for 2020, while revenue growth is expected in the coming years.

*Based on the DEP's projections of macroeconomic indicators and current collection trends, **Macroeconomic Analysis Unit of the ITA Governing Board (MAU) has projected a 10,9% decrease in indirect taxes for 2020, and growth rates of 2,8%, 3,5% and 3,7% for 2021, 2022, and 2023, respectively.** Considering the huge unknowns at the time of preparing the projections about the severity and duration of the shock caused by the corona virus pandemic, as well as many internal unknowns, and the assumptions used that the crisis will be overcome in the short term (DEP, macroeconomic indicators projections), **we point out that there are significant risks for the realization of projections of indirect tax revenues, where the risks of worse outcome predominate.***

1. Basics and assumptions of indirect tax revenue projections

On September 28, 2020, the Directorate for Economic Planning (DEP) submitted to the Macroeconomic Analysis Unit of B&H (MAU) the projections of macroeconomic indicators for Bosnia and Herzegovina for the period 2020-2023. Indirect tax projections are based on the September 2020 macroeconomic projections of the DEP, and take into account trends in indirect tax collection and current government policies in the field of indirect taxation (*baseline* scenario).

1.1. Projections of macroeconomic indicators, DEP, September 2020

DEP's projections for the medium term are based on the projections of international institutions, as well as on the assumption of improving the epidemiological situation, which would stabilize the economic situation in the country and abroad in the coming period.

Table 1. Projections of GDP growth

Projected growth rate of GDP	official data		projection			
	2018	2019	2020	2021	2022	2023
Nominal	5,1	4,3	-3,1	3,6	4,7	4,6
Real	3,2	2,4	-3,0	2,5	3,1	3,4

Source: DEP, September 2020

1.1.1. Projections for 2020

According to the official data of the Agency for Statistics of B&H, in 2019 there was a slowdown in economic growth to 2,4% in real terms (Table 1. Projections of GDP growth). It was stated in the DEP's document from September 2020 that the slowdown in economic growth in Bosnia and Herzegovina in 2019 was largely caused by the slowdown in economic activity in the international economic environment, i.e. the weakening of economic growth in some EU countries such as Germany and Italy. The beginning of 2020 is characterized by a further complication in the international economic conditions and the appearance of coronavirus, which, according to the DEP, will have a very negative implications on the economic developments in the world, region and, ultimately, in B&H. In such circumstances, the DEP projects a nominal GDP decline of 3,1% in 2020, while the real GDP decline rate should amount 3,0%.

1.1.2. Projections for the period 2021-2023

It is noted in the DEP's document that the precondition for the realization of their projections in the medium term is overcoming the new circumstances as soon as possible, improving the international economic environment and implementing both intervention and structural reforms in the country. Assuming the realization of these circumstances, the DEP forecasts nominal GDP growth rates of 3,6%, 4,7% and 4,6% for 2021, 2022 and 2023, respectively (real growth rates of 2,5 %, 3,1%, and 3,4%, respectively).

1.2. Current policies in the field of indirect taxation

VAT obligations and payment system are regulated by the Law on Value Added Tax ("Official Gazette of B&H", No. 9/05, 35/05, 100/08 and 33/17).

Excise policy is regulated by the Law on Excises in Bosnia and Herzegovina ("Official Gazette of B&H", No. 49/09, 49/14, 60/14 and 91/17). The policy of excises on tobacco in 2020 has been

regulated by the Law on Excises and Decision¹ of the ITA Governing Board. As the legally prescribed ceiling of the total excise tax on cigarettes of 176 BAM / 1000 cigarettes was reached for all price categories of cigarettes in 2019, the harmonization with EU standards in the field of cigarette taxation was completed,² while the taxation of cut tobacco is regulated according to the amendments to the Law (in force since 2014).³

The Law⁴ on Customs Policy in Bosnia and Herzegovina regulates the basic elements of customs policy and general rules and procedures that apply to goods brought into and out of the customs territory of Bosnia and Herzegovina.

The phase process of liberalization of B&H's foreign trade is shown in Chart 1.

Chart 1. Phases of foreign trade liberalization in B&H

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	CEFTA	EU, SAA			Customs records				EFTA		EU, adapt. SAA

Source: Antic, D. "Foreign Trade Liberalization of B&H (2007-2017): Implications and Comparative Analysis", MAU Bulletin 152/153, March / April 2018, www.oma.uino.gov.ba.

1.3. Indirect tax collection trends

Collected revenues from indirect taxes show a long-term growth trend. Exceptions were "the crisis year" 2009 when a sharp drop in revenue of 9,9% was achieved, as well as stagnation and a slight fall in revenues in 2012 and 2013 respectively. The growth of collected revenues on SA of the ITA was recorded in all other years (Chart 2). It was collected 4,1 billion BAM of net revenues from indirect taxes on the SA of ITA in 2006, and in 2019 the net revenues increased by even 58,7% (6,54 billion BAM) in comparison with 2006. It should be noted that these amounts do not include the lagging payments of indirect taxes on Entity accounts, which were more significant in the initial years after the introduction of VAT.

The share of indirect taxes on the SA of ITA in GDP has varied over the years (Table 2). After dropping this share from 18,7% in 2008 to 17,0% in crisis year 2009, it has been ranging between 17,3% (2013) and 18,5% (2011) since 2010. It amounted 18,3% in 2019. The share of indirect taxes on the SA of ITA in total consumption has also varied, showing a steady upward trend since 2014. In 2019, it was 19,5%

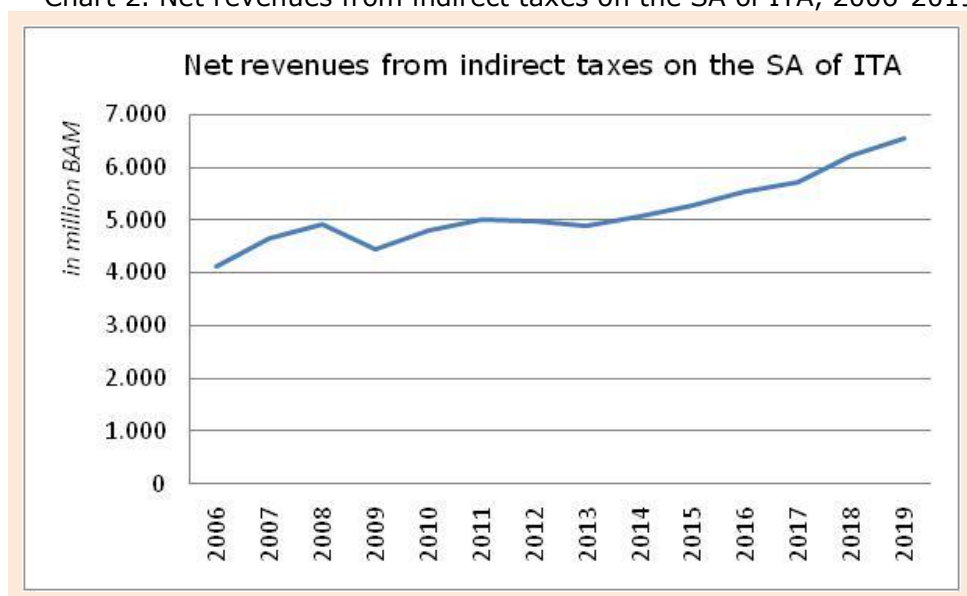
1 Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2020 („Official Gazette of B&H" No 80/19).

2 There are currently in the parliamentary procedure the amendments to the Law on Excises adopted by the Governing Board of the ITA in 2018, which imply the introduction of a three-year moratorium on the increase of the specific excise duty on cigarettes starting from 2019. In the meantime, the Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2019 and 2020 according to the applicable Law has been adopted. Given that EU standards for cigarette taxation have been reached in 2019, the aforementioned amendments to the Excise Duty Act are no longer topical, and some legal steps are expected accordingly.

3 The new policy is in effect since 1 August 2014 (Amendments to the Law on Excises in B&H "Official Gazette of B&H" No. 49/14)

4 The new Law on Customs Policy ("Official Gazette of B&H" No. 58/15) will apply from July 1, 2021 ("Official Gazette of B&H" No 21/20), and until that date the old Law on Customs Policy ("Official Gazette of B&H" No. 57/04, 51/06, 93/08, 54/10 and 76/11) will continue to apply. The exception is Article 207 of the new Law which has been applied as of 25 April 2018.

Chart 2. Net revenues from indirect taxes on the SA of ITA, 2006-2019



Source: Indirect Taxation Authority of B&H, calculation of the MAU

Table 2. Share of indirect tax revenues on the SA of ITA in GDP and in total consumption

(in %)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GDP	19,5	19,8	18,7	17,0	18,4	18,5	18,0	17,3	17,8	17,6	17,8	17,6	18,2	18,3
C	18,4	19,2	17,9	16,5	17,6	17,7	17,4	16,9	17,3	17,8	18,4	18,6	19,4	19,5

Source: Calculation based on ITA and BHAS data⁵

1.3.1. Collection in 2019

A review of the net collection of indirect taxes (Chart 2) shows that in 2019, a record amount of indirect tax revenues was collected since the establishment of the ITA, in the amount of 6.541,8 million BAM, while the growth rate was 5,2%. A review of quarterly collection⁶ shows that the highest revenue growth was recorded in the first quarter, when it reached 7,2%. It should be emphasized that collection in January 2019 also includes the effects of the changes in the Law on Excises in 2018, since the increase in the road tax rate has applied as of February 1, 2018. These effects contributed 1,4 percentage points to revenue growth in the first quarter of 2019, and 0,3 percentage points to the annual growth in net collection in 2019. In addition to the effects of legal changes, the growth rate in the first quarter is the result of: growth in consumption, stabilization and increase in the consumption of derivatives, and policies of tobacco companies that have borne part of the additional tax burden (increase in the specific excise tax on cigarettes and cut tobacco from as of January 1, 2019) at the expense of their own profit. Net collection growth rate in the second quarter of 2019 was only 2,3%. The low rate of revenue growth is the result of a sharp fall in revenue in June, primarily VAT. Poor VAT collection in June was partly offset by increase in excise tax revenues on tobacco products, as a result of further postponement of the shift of the additional tax burden to retail prices and the announcement of price adjustments in July. In the third quarter, strong revenue growth of 6,4% was again achieved, as a result of significant growth in net VAT revenues and excises on tobacco. At the beginning of the fourth quarter, revenue stagnation was recorded due to lower collection of almost all types of indirect taxes. However,

⁵ GDP by expenditure approach, BHAS, September 2020.

⁶ Comparison of a particular 2019 quarter with a corresponding 2018 quarter (YoY growth)

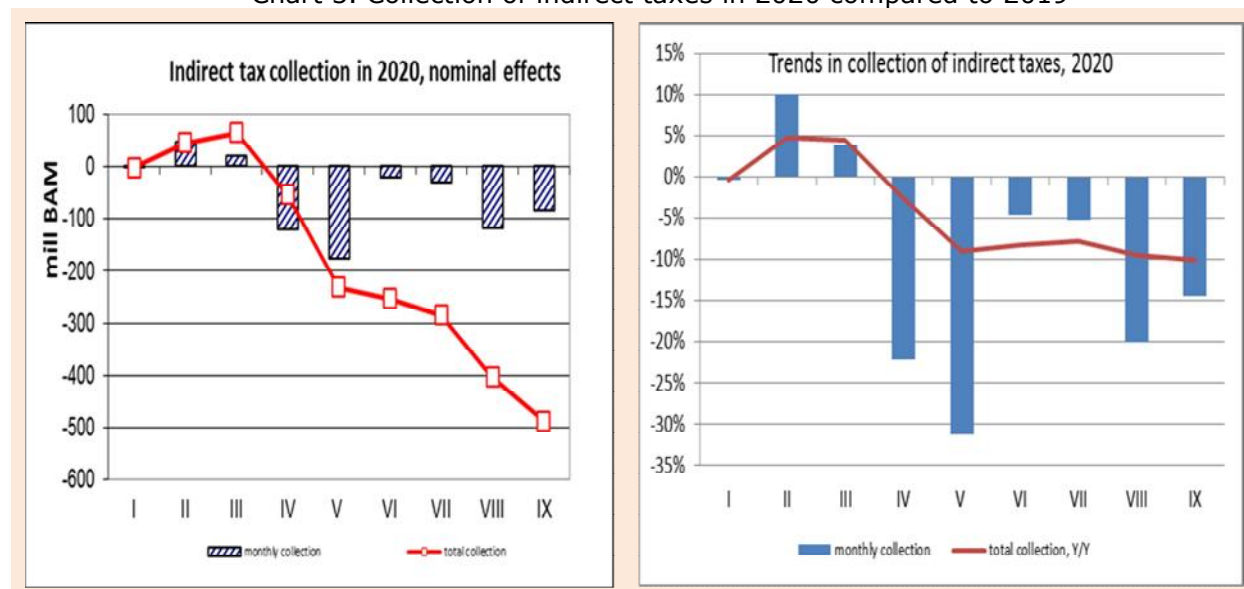
strong collection of almost all revenue categories in December brought high effects and growth of 4,8% on a quarterly basis.⁷

1.3.2. Collection in the period January - September 2020

Total collection

According to the preliminary cash flow report, in September 2020 the ITA collected 623,5 million BAM of gross revenues from indirect taxes, which is 54,3 million BAM less than in the same month of 2019. The negative effects of the decline in gross collection were further worsened by unexpectedly high growth in refunds of 30,5%. Finally, September net revenue collection was 14,4% or 83,7 million BAM lower than in September 2019. The large drop in the collection of indirect taxes in September has worsened the total revenue decline (Chart 3, left). At the level of nine months of 2020, the gross collection was lower by 609,8 million BAM, while the refunds were lower by 123,2 million BAM. Due to the decrease in refunds, the decrease in cumulative net collection was significantly smaller compared to the decrease in gross collection, amounting to 486,6 million BAM, or 10% (Chart 3, right).

Chart 3. Collection of indirect taxes in 2020 compared to 2019

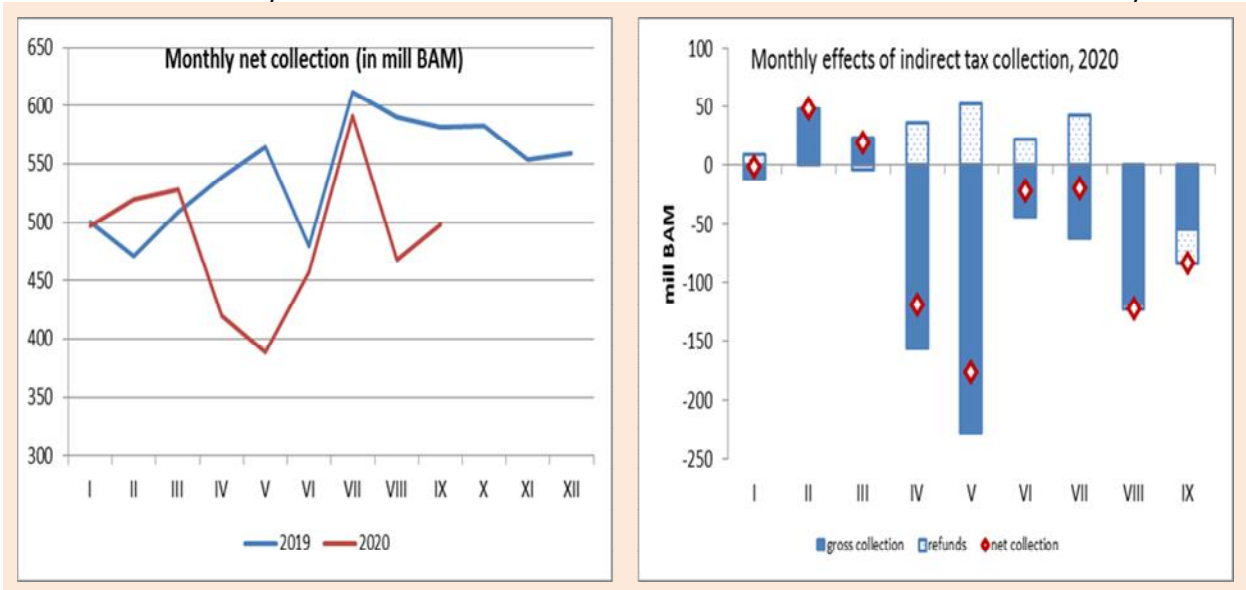


Source: Indirect Taxation Authority of B&H, calculation of the MAU

An overview of nominal monthly net collection in 2020 shows the extent to which the coronavirus pandemic has impacted the collection of indirect taxes (Chart 4, left). It can be seen a big drop in revenues in April and May, followed by significant improvement in June and July, which was short-lived, since there has been a big deterioration in collection in the last two months.

⁷ More on 2019 collection in Antic, D. "Indirect tax collection in 2019", OMA Bulletin 176/177, March / April 2020, www.oma.uino.gov.ba.

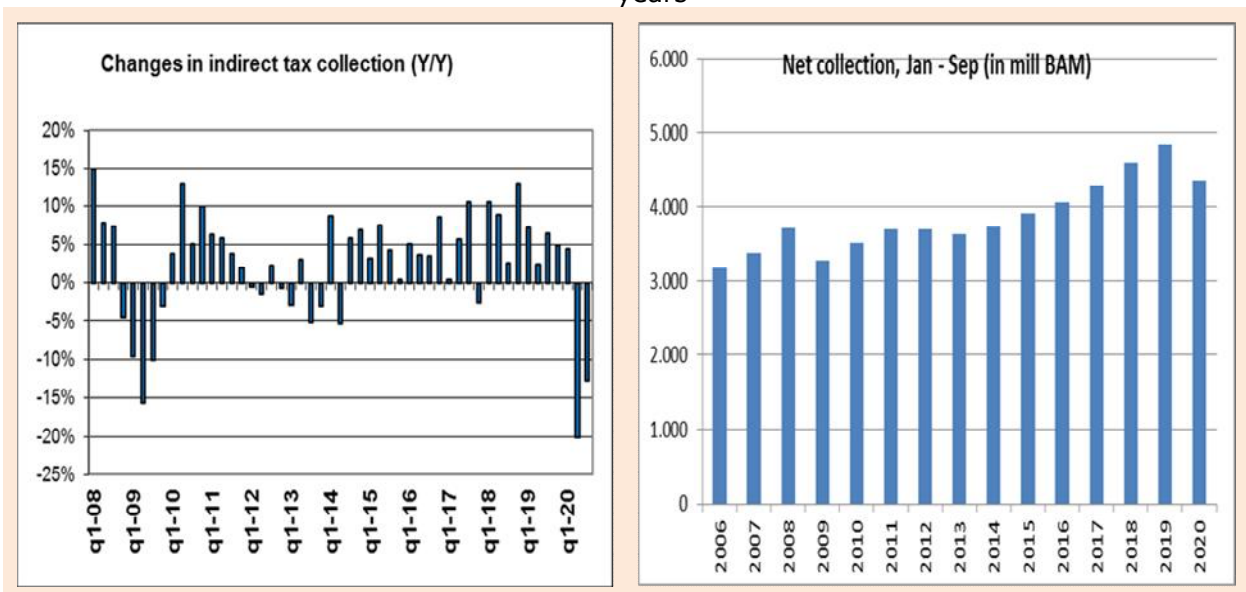
Chart 4. Monthly collection of indirect tax revenues in 2019 and 2020 and monthly effects



Source: Indirect Taxation Authority of B&H, calculation of the MAU

An overview of revenue collection by months indicates divergent trends caused by the appearance of the coronavirus (Chart 4, right). In the first three months of 2020, there was recorded an increase in gross revenues and minimal oscillations in the refund payments. After the closure of borders and the economy, there was a sharp decline in gross collection, which was somewhat mitigated by a reduction in refunds. Some improvement that occurred in June and July was annulled by decline in gross collection in August and September, as well as by the increased refund payments in September.

Chart 5. Changes in the collection of indirect taxes (YoY) and net collection for the period I-IX by years



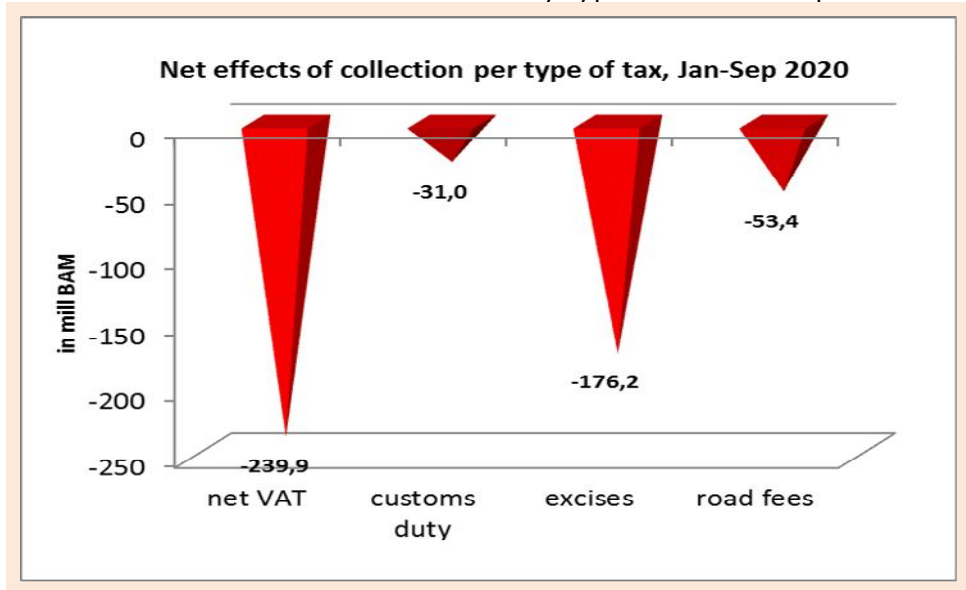
Source: Indirect Taxation Authority of B&H, calculation of the MAU

Since the coronavirus appeared in B&H at the beginning of March, and significant restrictive measures were introduced by the B&H authorities at the end of March, in the first quarter the growth of revenues from indirect taxes was achieved at the level of 4,4%. Introduction of restrictive measures at borders, closure of certain activities and restrictions in population movement have brought a decline in imports and consumption, especially due to the impossibility of the arrival of non-residents (diaspora, tourists, in transit, cross-border consumption), resulting all together in a drop in net collection in the second quarter of 20,1 %, and in the third of 12,7% (Chart 5, left). Overall, the magnitude of the impact of coronavirus on the collection of indirect taxes is shown by the fact that net collection in the period January - September 2020 was at the level of collection in the same period in 2017 (Chart 5, right).

Trends by revenue types

In September 2020, there was a decline in revenues from all major types of indirect taxes. Expressed in nominal terms in the period January - September 2020, the largest decline in revenues was recorded in VAT (-239,9 million BAM), excises (-176,2 million BAM), and in customs revenues (-31 BAM) and road tax (-53,4 million BAM) - Chart 6. It should be emphasized that the revenue trends by type can be changed after the final adjustment of currently unadjusted revenues (approximately 30 million BAM).

Chart 6. Net nominal effects of collection by type of tax for the period I-IX 2020

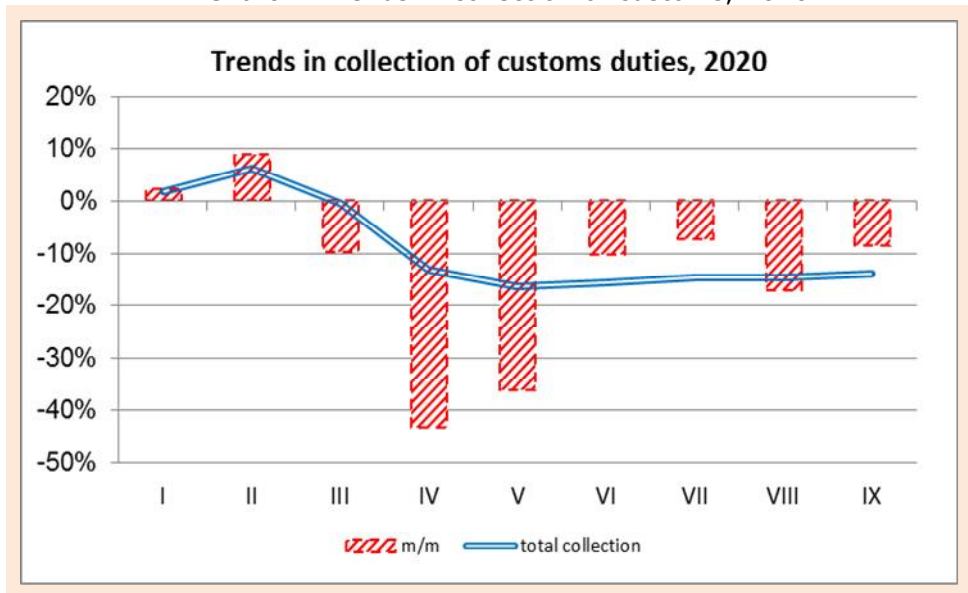


Source: Indirect Taxation Authority of B&H, calculation of the MAU

Customs

With the outbreak of the coronavirus pandemic, the first reaction in countries was to close the borders and introduce quarantines, which resulted in reduction the movement of persons and transport of goods from Asia, and later from the EU. Already in March, a decline in customs revenues was recorded as a result of the closure of B&H for imports from pandemic-affected countries (China and other Asian countries), and difficult imports from Italy, Germany and other European countries affected by the virus, either due to restrictions in B&H or restrictions in those countries. The import crisis peaked in April, while the gradual opening of borders, first to Chinese goods and then to the EU since May, has brought a significant slowdown in reducing the imports in September, resulting in a lower percentage of decline in customs revenues. In September 2020, customs revenues were lower by 8,6% compared to the same month in 2019 (Chart 7).

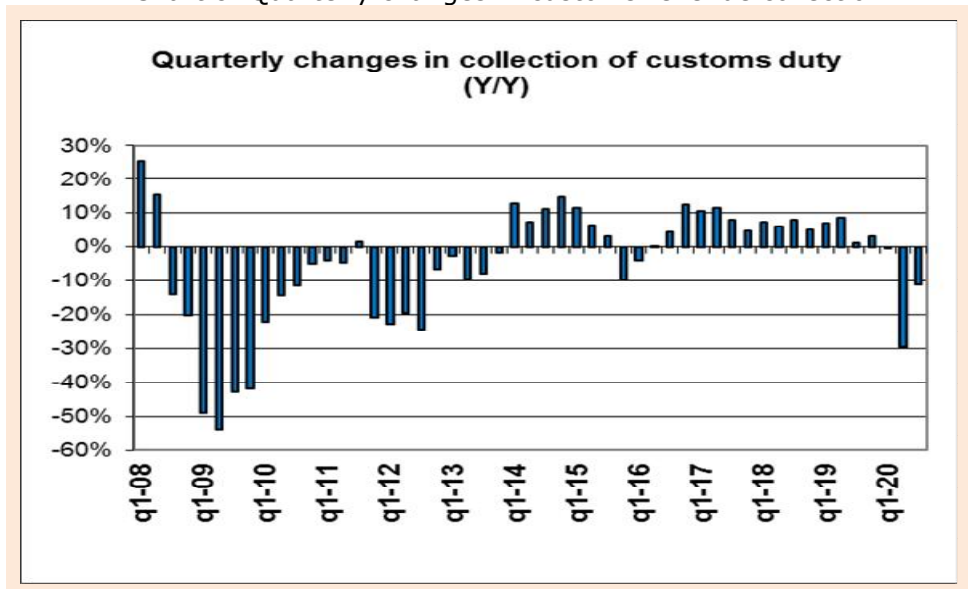
Chart 7. Trends in collection of customs, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

The quarterly comparison (Chart 8) shows that the positive trends in customs revenues, which lasted for four years, were interrupted in the second quarter of 2020. Due to the impact of coronavirus on imports, collection of customs revenues in the first quarter was at the level of collection in the first quarter of 2019, while in the second quarter there was a decline of 29,6%. In the third quarter, there was certain stabilization of imports, but at a much lower level than in 2019, so that customs revenues decrease amounted to 11%. Finally, at the nine-month level, the decline in customs revenues was 14,6%, due to the catastrophic results in the second quarter.

Chart 8. Quarterly changes in customs revenue collection



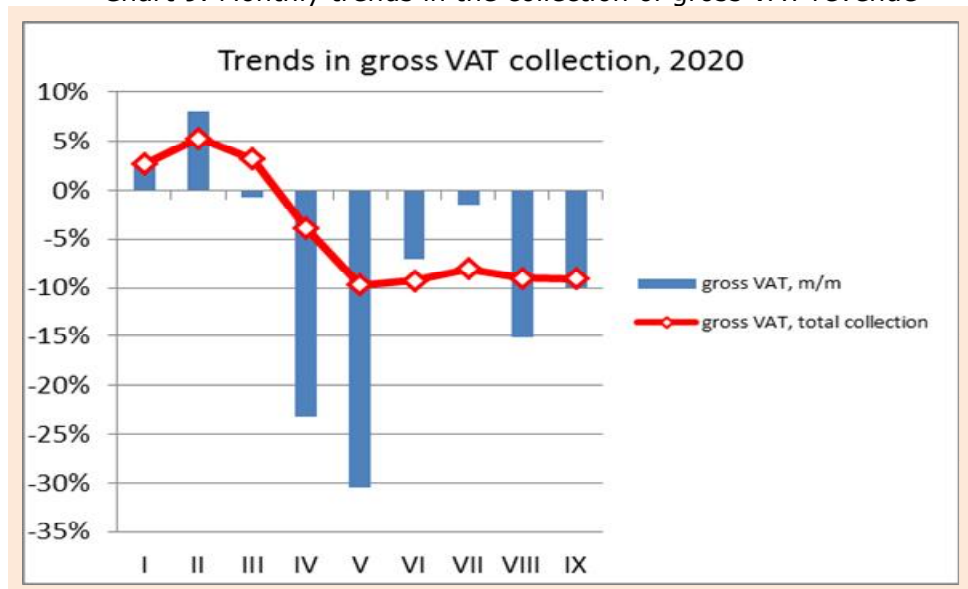
Source: Indirect Taxation Authority of B&H, calculation of the MAU

VAT

In September 2020, the bad trends in the collection of gross VAT from the previous month have continued. It was collected 10% less revenues, compared to the same month in 2019, which stabilized the rate of decline in total gross VAT to -9,1% (Chart 9). After the final adjustment of revenues, a smaller decline can be expected, given that a significant part of non-adjusted revenues refers to VAT.

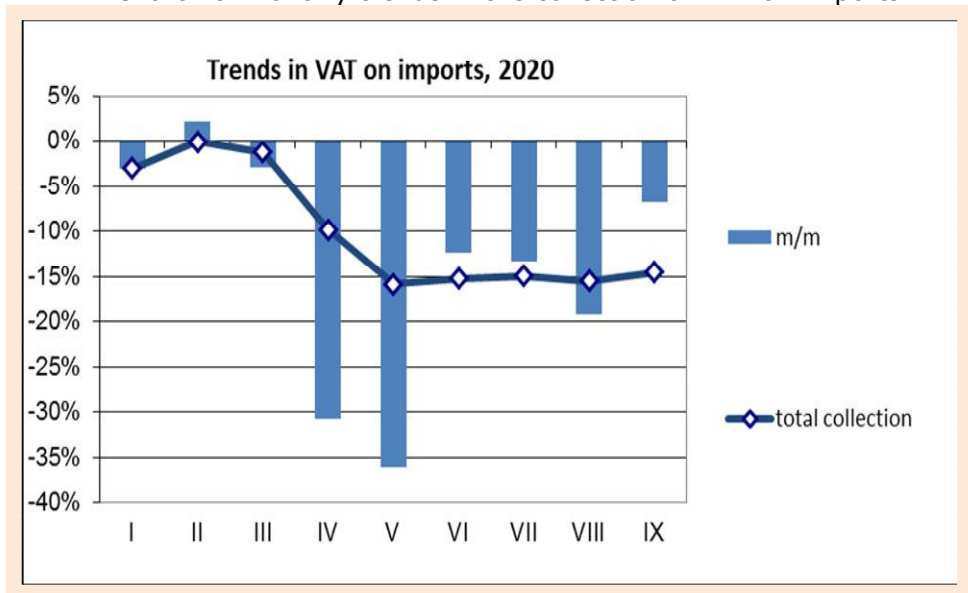
The dynamics of the cumulative components of gross VAT collection shows that the worsening trends in the collection of VAT on imports determine the trends of the total gross collection. After high monthly rates of decline in VAT collection on imports, which exceeded -35% in May, the lowest decline in VAT on imports in the past six months was recorded in September (-6,8%). The moderate improvement in the collection of VAT on imports in September resulted in the stabilization of the rate of decline in VAT on imports at the level of nine months, which amounted to -14,2% compared to the same period in 2019 (Chart 10).

Chart 9. Monthly trends in the collection of gross VAT revenue



Source: Indirect Taxation Authority of B&H, calculation of the MAU

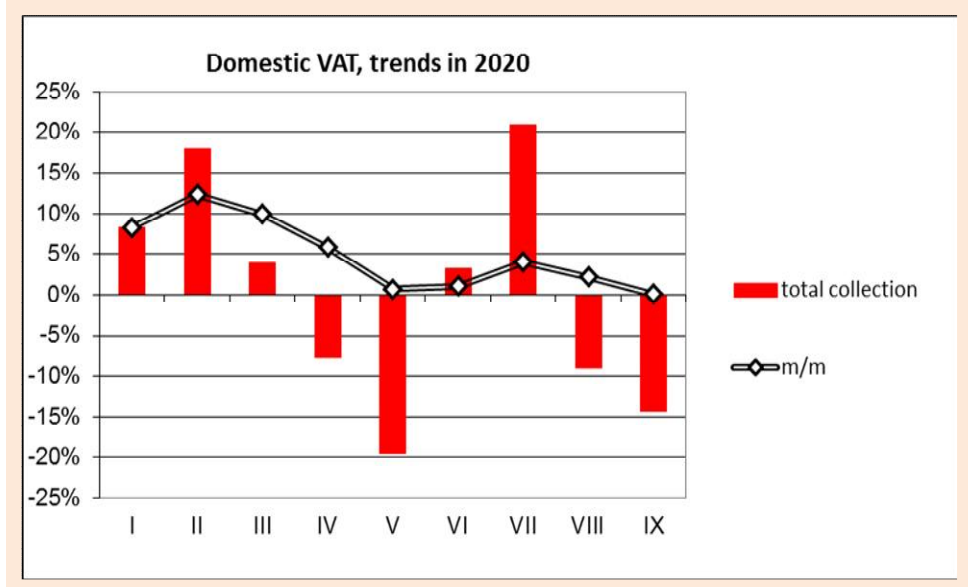
Chart 10. Monthly trends in the collection of VAT on imports



Source: Indirect Taxation Authority of B&H, calculation of the MAU

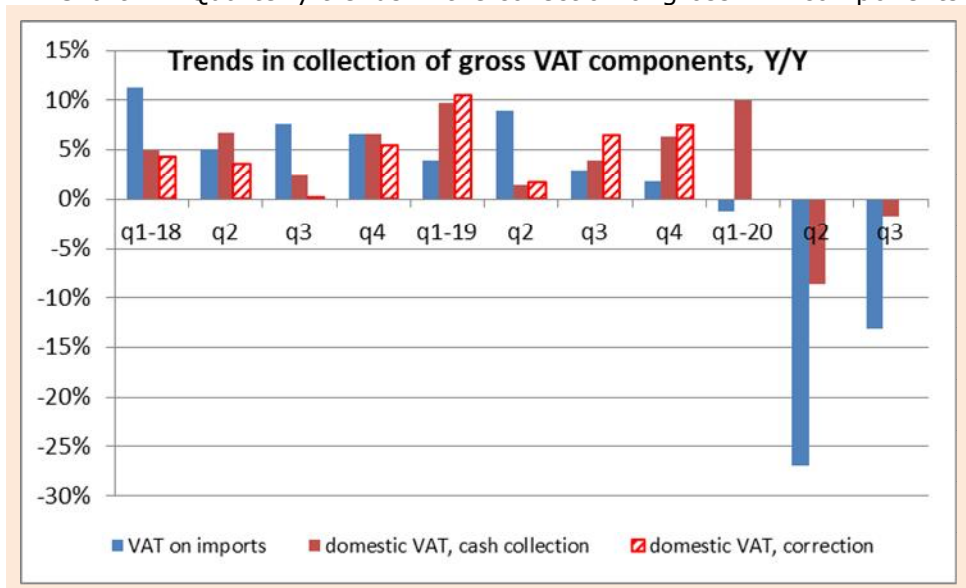
On the other hand, domestic VAT fell by 14,4% in September, when the second greatest drop was recorded since the outbreak of pandemic. Nevertheless, thanks to the high growth rates in the first quarter and in July, the cumulative growth rate of domestic VAT remained in the zone of positive growth, amounting 0,1% (Chart 11). After adjusting of unadjusted revenues, it is realistic to expect a higher positive growth rate of domestic VAT cumulative.

Chart 11. Monthly trends in the collection of domestic VAT revenues, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

Chart 12. Quarterly trends in the collection of gross VAT components



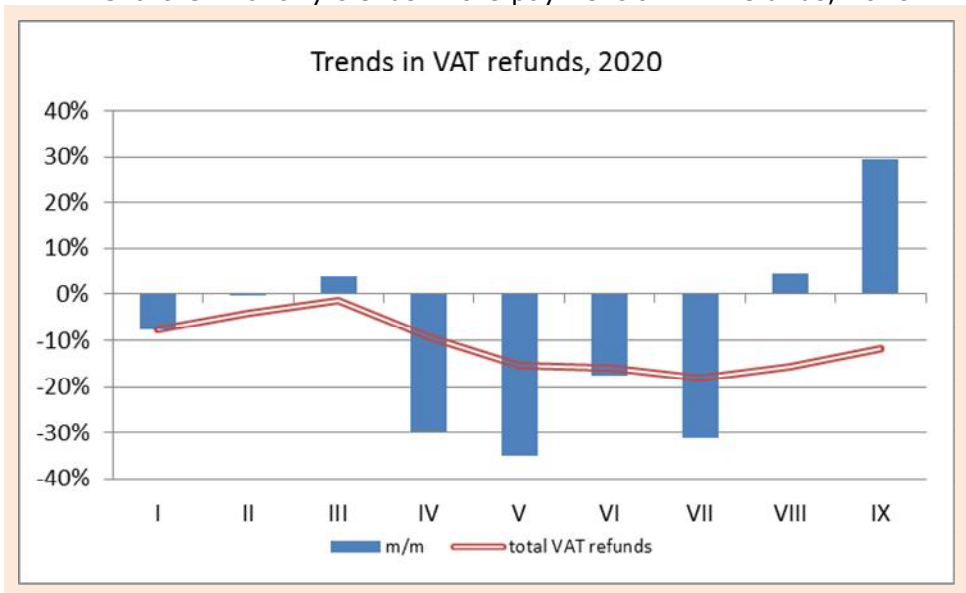
Note: Corrections on domestic VAT, shown for 2018 and 2019, are related to the offsetting the excise tax liabilities on domestic oil derivatives by VAT credits during 2018

Source: Indirect Taxation Authority of B&H, calculation of the MAU

Quarterly trends better reflect the extent of the impact of coronavirus on VAT collection (Chart 12). In the first quarter, domestic VAT grew at a rate of 9,9%, while VAT on imports was in the zone of negative growth of -1,2%. The analysis of the components of gross VAT shows a strong decline in the collection of VAT on imports in the second quarter of 2020 of 26,9%, and in domestic VAT of 8,6%. In the third quarter, some improvement in trends can be seen, although the weaknesses are still high. Compared to the third quarter of 2019, VAT on imports was lower by 13,2%, and domestic VAT by 1,7%.

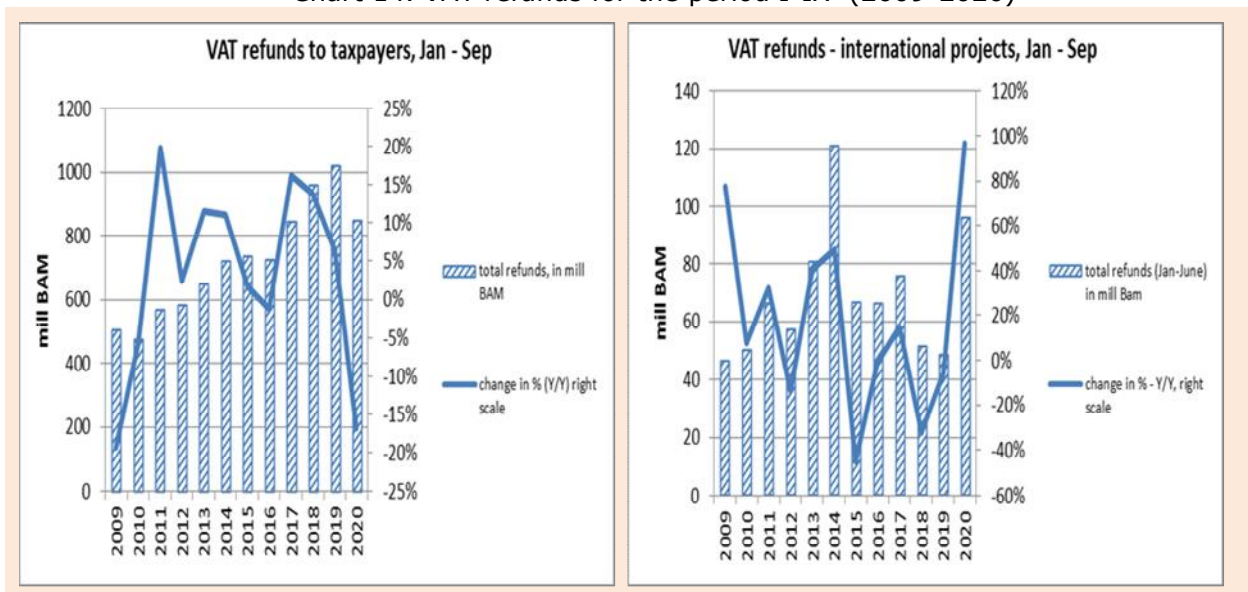
An increase in VAT refunds has been registered in the last two months, which was unexpected given that the main growth factors of refunds, exports and imports, have recorded a large decline since the outbreak of the pandemic. In September, refund payments were higher by 29,6% compared to the same month in 2019, which is partly due to the refund payments on domestic investments in 2020, and partly due to the low base in 2019. The growth of refunds in the last two months reduced the overall decline in refunds in the period January-September 2020 to -11,7% (Chart 13).

Chart13. Monthly trends in the payment of VAT refunds, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

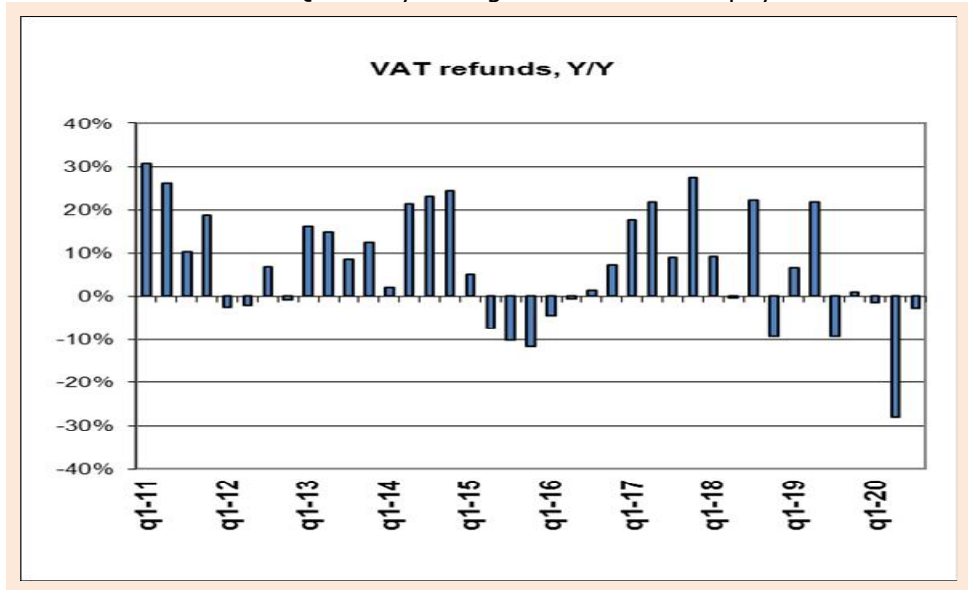
Chart 14. VAT refunds for the period I-IX (2009-2020)



Source: Indirect Taxation Authority of B&H, calculation of the MAU

The structure of refunds shows that payments of refunds to taxpayers for the nine months of 2020 were lower by 172,3 million BAM, or by 16,9% (Chart 14, left). On the other hand, refund payments to international projects have expanded. It was paid 47,2 million BAM more than in the same period in 2019, which is an increase of 96,8%. (Chart 14, right).

Chart 15. Quarterly changes in VAT refund payments



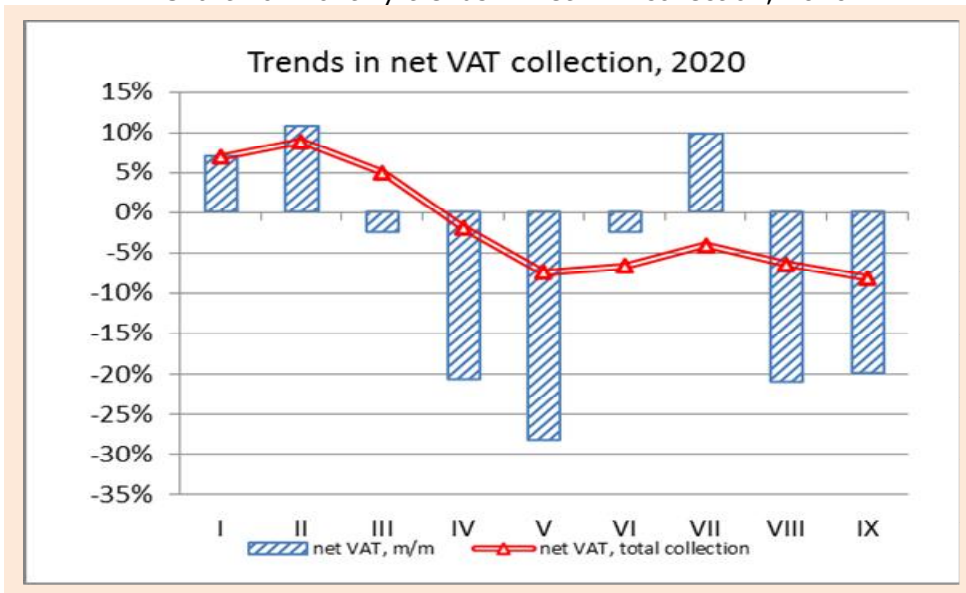
Source: Indirect Taxation Authority of B&H, calculation of the MAU

Since the pandemic has stalled or slowed down investments financed by international projects, it can be assumed that it is about the payment of VAT on international projects from 2019, and that there has been a shift of revenues between the two fiscal years. VAT on investments financed from international projects was paid in 2019, increasing the VAT growth rate in that year, while VAT refunds were realized in 2020, thereby reducing the VAT growth rate in 2020. The effect of the shift amounts 0,2 percentage points of the net VAT fall in 2020.

Due to the strong growth in refund payments and a decline in gross collection, the decline in net VAT amounted to 20% in September, which has worsened the cumulative trends, so at the level of nine months there was a decline of 8,1% (Chart 16).

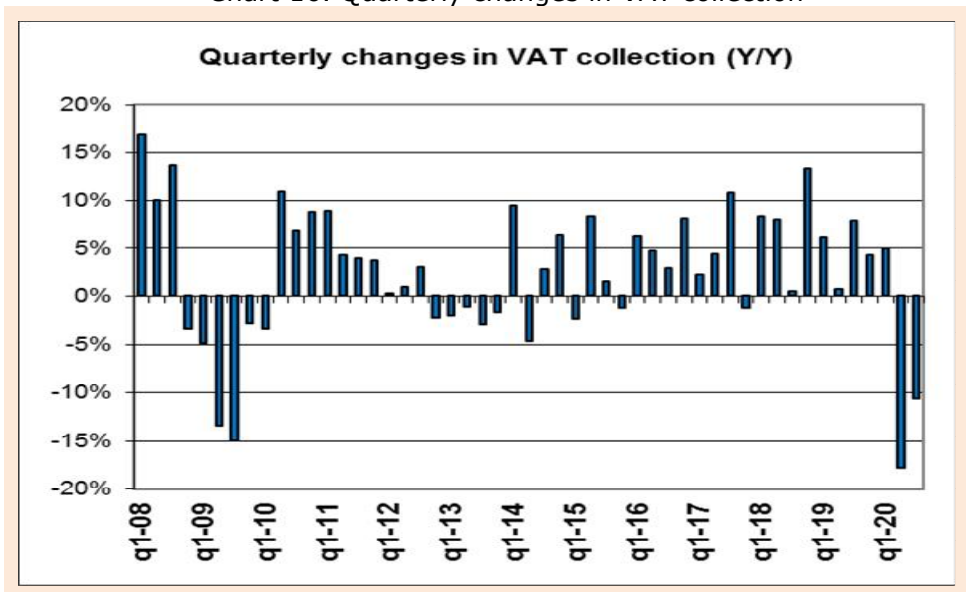
A review of quarterly trends indicates the effects of coronavirus on B&H consumption. In the first quarter of 2020, VAT collection was higher by 4,4% compared to the collection in the same quarter of 2019. In the second quarter of 2020, when restrictive measures were in force, regarding the movement of the population and the operation of retail stores, a drop of 17,8% was recorded. The relaxation of measures in the third quarter did not bring any significant improvement, since the restrictions for non-residents were in force, so that the net VAT collection decreased by 10,7% (Chart 17).

Chart 16. Monthly trends in net VAT collection, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

Chart 16. Quarterly changes in VAT collection

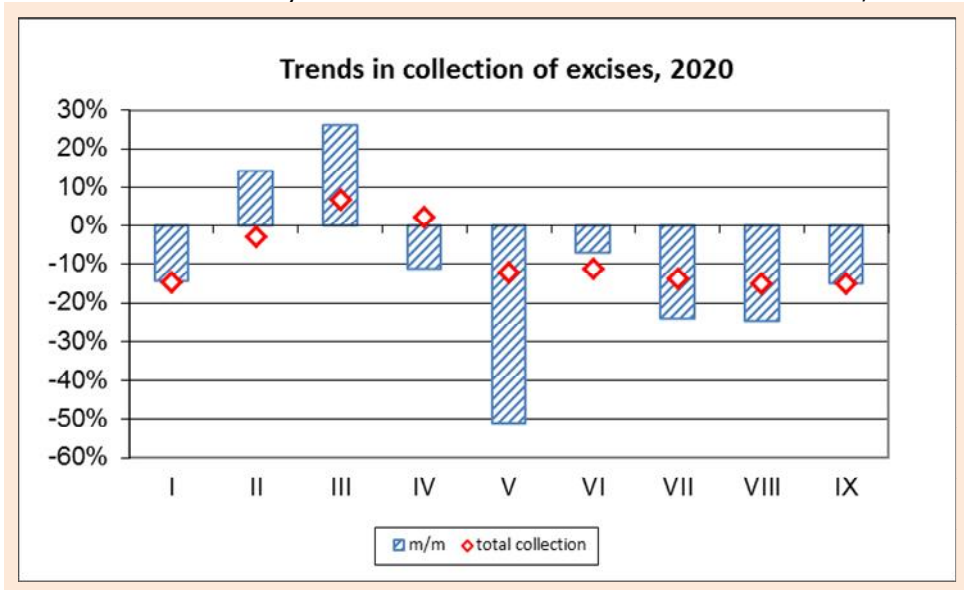


Source: Indirect Taxation Authority of B&H, calculation of the MAU

Excises

In September, the negative trends in the collection of excises have continued. Revenues decreased by 15,2%, which kept the growth rate in the total excise collection at the same level as in the previous few months, around -15% (Chart 18).

Chart 17. Monthly trends in the collection of excise revenues, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

In September, an increase in excise revenues was recorded only in excises on alcohol and alcoholic beverages. A large drop in collection was realized in the collection of excise duties on domestic tobacco, coffee and soft drinks.

The analysis of quarterly collection of excise revenues shows an increase in the first quarter of 2020 of 6,7%, and then, after the outbreak of the pandemic, a sharp decline in the second and third quarters of 27,3% and 21,7%, respectively (Chart 19) .

Chart 18. Quarterly trends in the collection of excise revenues

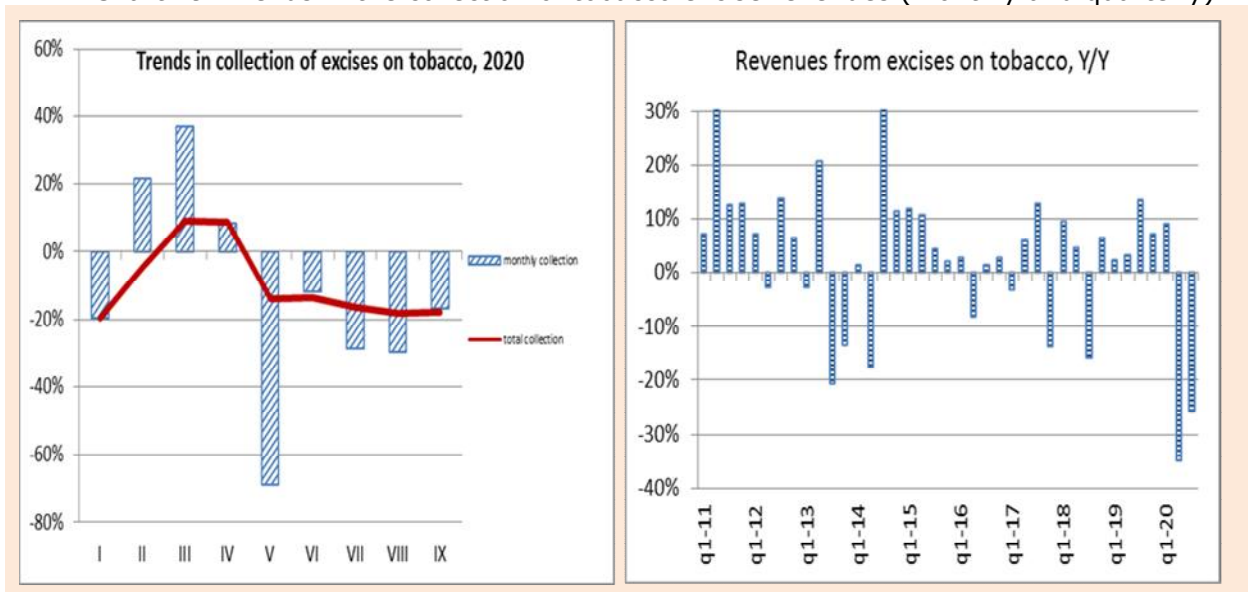


Source: Indirect Taxation Authority of B&H, calculation of the MAU

After poorer collection in January, high monthly growth rates of excise collection were achieved in the next three months (Chart 20, left), despite the outbreak of a pandemic and the application of

restrictive measures that limited the entry of non-residents and population movements within B&H. However, it should be borne in mind that the collection of excise duties, due to *ex ante* payments (when overtaking excise stamps), depends on the perception of large tobacco companies regarding the future consumption of tobacco products in B&H, and not on the actual consumption. Thanks to the growth of excise collection in the first quarter of 2020, revenue growth of 9% was achieved, while the enormous decline in collected excises in May brought a decline in the second quarter of 13,7% (Chart 20, right). Expectations of summer increase in consumption after the relaxation of measures taken by the authorities to stem the spread of coronavirus have not materialized, as certain restrictions on non-residents entering B&H remained in force until the autumn, while the EU members and other countries held B&H on the red list whole time, and thus discouraged their citizens and the B&H diaspora to come in B&H. The consequences of the implemented measures were catastrophic for the collection of excise revenues, as tobacco companies were forced to significantly reduce the sale of tobacco products. Monthly rates of decline in excise collection in the third quarter ranged between -17% and -30%, which brought a decline of 25,8% at the quarterly level. Due to the importance of excises on tobacco products in the tax structure, the total collection of indirect taxes has been greatly affected.⁸ The total deficit in the collection of excise duties on tobacco products for the nine months of 2020 amounts about 121 million BAM, which is one quarter of the decrease in total net revenues from indirect taxes in that period. The coronavirus pandemic has revealed the vulnerability of collection and its high dependence on external consumption, not only in the case of excise duties on tobacco products, but also of total indirect taxes (VAT, excise duties on oil derivatives and other excise duties).

Chart 19. Trends in the collection of tobacco excise revenues (monthly and quarterly)



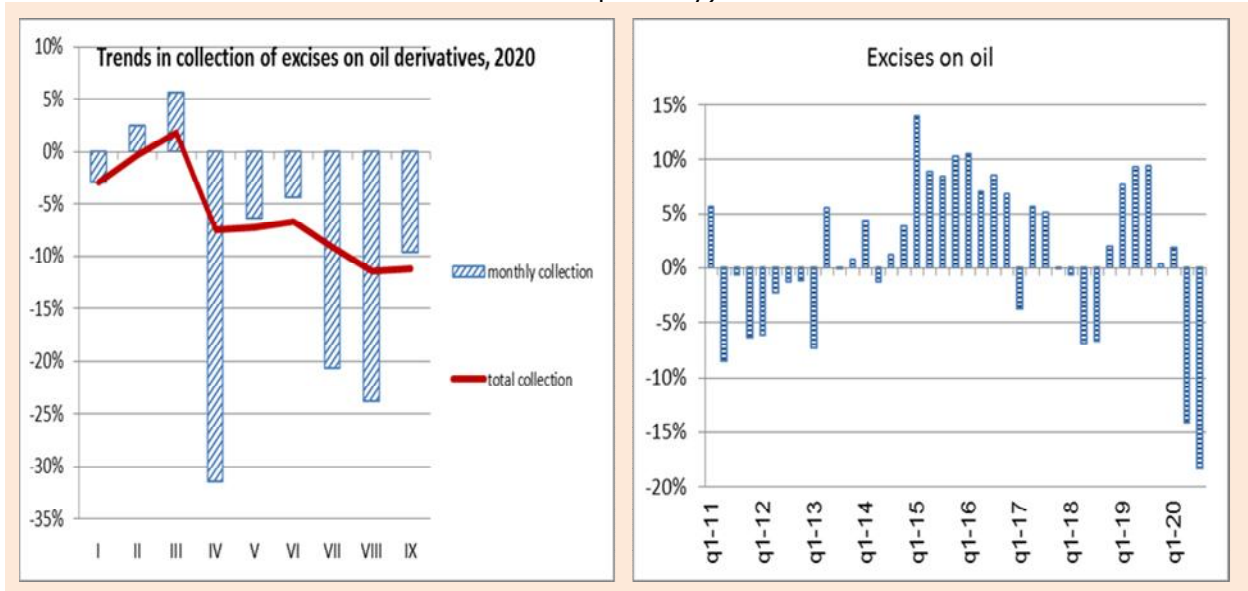
Source: Indirect Taxation Authority of B&H, calculation of the MAU

The dynamics of collection of excises oil derivatives is different from the collection of excises on tobacco products, because it reflects the real impact of coronavirus on the economy and consumption of citizens. The highest decrease was achieved in April when most companies did not work or worked in difficult conditions. Since May, the situation has gradually improved, but this has only lasted for two months, with the situation deteriorating sharply in July and August (Chart

⁸ Revenues from excises on tobacco products, together with the corresponding VAT, in 2019 accounted for 16% of collected revenues from indirect taxes, meaning that every sixth BAM of collected revenues comes from the consumption of tobacco products.

21, left). In September, there was a 9,6% drop in the collection of excises on oil derivatives, but it is too early to say whether this is a recovery in revenue collection. Generally, in the first quarter of 2020 the collection of excise revenues increased by 1,8%, while in the second and third it decreased by 14,1% and 18,3% (Chart 21, right).

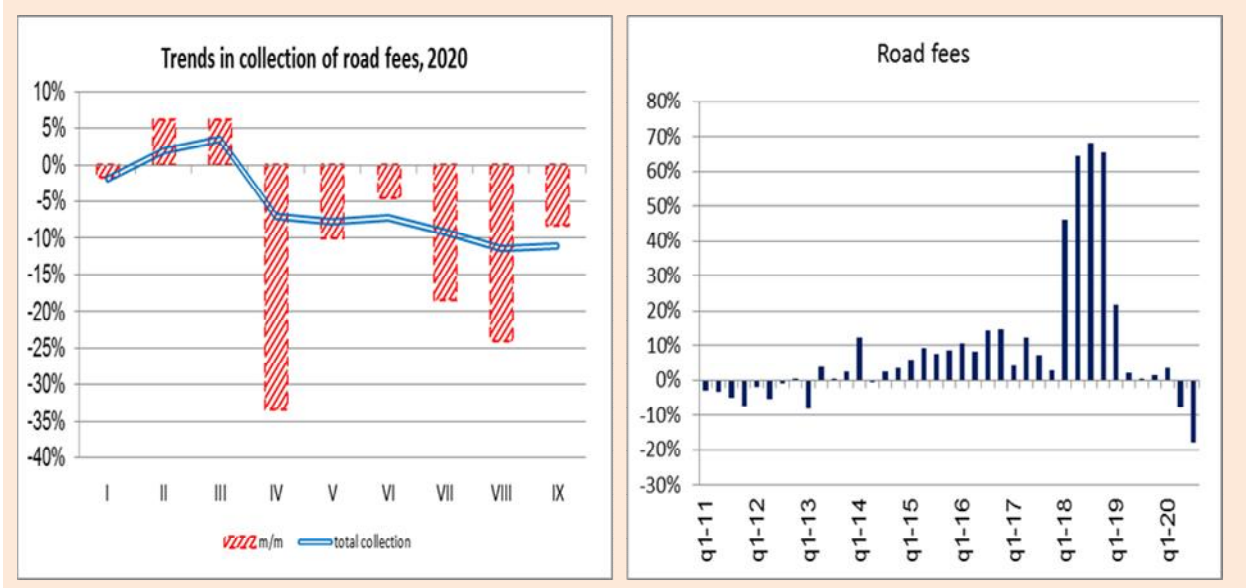
Chart 20. Trends in the collection of revenues from excise duties on oil derivatives (monthly and quarterly)



Source: Indirect Taxation Authority of B&H, calculation of the MAU

The collection of road tax revenues in September was in line with the collection of excise duties on derivatives (Chart 22, left). The trends in collection are similar to the trends in collection of excise duties on oil derivatives, while possible differences may arise from different charge of excise duty depending on the type of derivative, as well as from the exemption of road tax for certain categories of companies (mines, railways, thermal power plants). In the first quarter, road tax revenues grew by 3,5%, while in the second and third they fell by 16,1% and 17,4% (Chart 22, right).

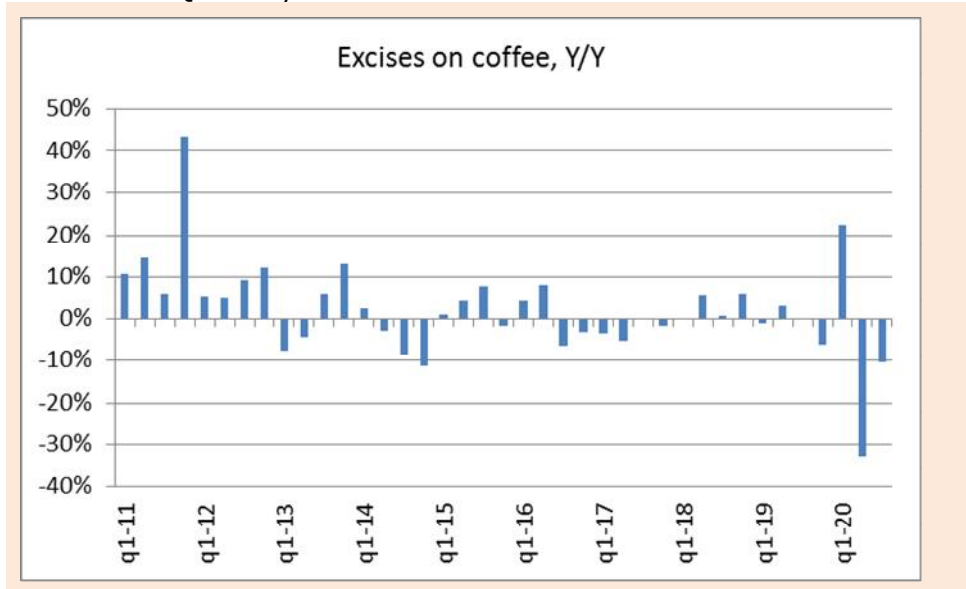
Chart 21. Trends in the collection of road tax revenues (monthly and quarterly)



Source: Indirect Taxation Authority of B&H, calculation of the MAU

In 2020, the trend of oscillating growth of revenues from excises on coffee has continued, which is not only related to the appearance of the coronavirus, but also to the situation on the world coffee market and stock exchanges. After a high increase in the collection of excises on coffee in the first quarter of 22,3%, there were decreases of 32,7% and 10,4% in the second and third quarters of 2020 compared to the same quarters of 2019 (Chart 23).

Chart 22. Quarterly trends in the collection of excise revenues on coffee

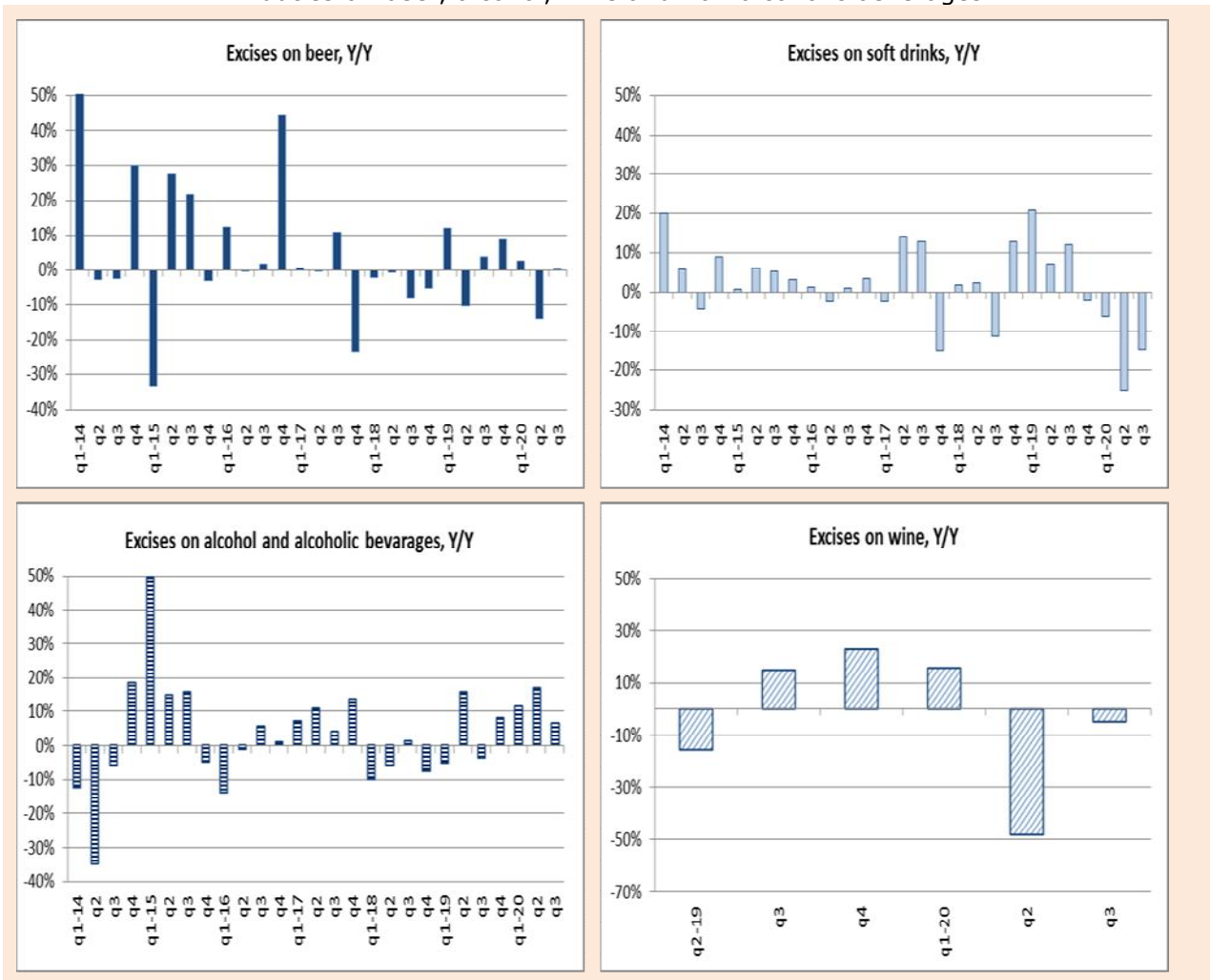


Source: Indirect Taxation Authority of B&H, calculation of the MAU

In September 2020, the positive trend in the collection of excise duties on alcohol and alcoholic beverages has continued, so that at the level of nine months an increase of 11,5% was achieved. The high decline in the collection of excises on non-alcoholic beverages has worsened the current trends, so that at the level of nine months a decline of 16,1% was recorded.

In September, there was a decrease in the collection of excises on beer, both on domestic and imported. At the level of nine months, the collection of excises on beer decreased by 3,8%, where the decrease in excises on domestic beer amounted 5,7%. However, it should be borne in mind that in January 2019, old excise debts were collected (domestic beer), which increased the basis for comparison and reduced the growth rate of collection of domestic excises, and consequently of total revenues, below the real. After excluding the effect of the collection of old debt, the decline in the collection of excises on beer for the first nine months of 2020 amounted to 1,3%, while the revenues from excises on domestic beers increased by 2,3%.

Chart 23. Quarterly trends in the collection of revenues from excise duties on beer, alcohol, wine and non-alcoholic beverages



Source: Indirect Taxation Authority of B&H, calculation of the MAU

2. Projections of revenues from indirect taxes 2020-2023

Revenue projections for the period 2020-2023 are available in Table 3. In order to ensure the comparability of projected and collected revenues from indirect taxes, projections of indirect tax revenues are presented on a cash basis in accordance with ITA reporting on collection by type of revenue.

Table 4 shows revenue projections in % of GDP.

Table 3. Projections of indirect tax revenues 2020-2023, October 2020

Type of revenue (net)	in million BAM					Projected growth rate			
	Realization	Projection							
	2019	2020	2021	2022	2023	2020	2021	2022	2023
VAT	4.022,4	3.673,1	3.773,1	3.907,1	4.049,4	-8,7%	2,7%	3,6%	3,6%
Excises	1.533,3	1.303,3	1.342,6	1.387,9	1.437,3	-15,0%	3,0%	3,4%	3,6%
Customs	300,6	259,0	269,3	282,1	297,9	-13,9%	4,0%	4,8%	5,6%
Road tax	650,2	567,3	581,4	599,5	619,8	-12,7%	2,5%	3,1%	3,4%
Other	35,3	27,6	25,8	26,0	26,3	-21,8%	-6,6%	1,0%	1,0%
TOTAL	6.541,8	5.830,2	5.992,2	6.202,6	6.430,7	-10,9%	2,8%	3,5%	3,7%
Earmarked road tax *)	-406,2	-354,5	-363,4	-374,7	-387,4	-12,7%	2,5%	3,1%	3,4%
FUNDS FOR DISTRIBUTION	6.135,6	5.475,7	5.628,8	5.828,0	6.043,3	-10,8%	2,8%	3,5%	3,7%

Notes:

*) The earmarked road tax amounted to 0,10 BAM /l of oil derivatives until 1 February 2018, aimed entirely for the construction of highways, and as of 1 February to 0,25 BAM /l of oil derivatives, for the construction of highways (0,20 BAM/l) and construction and reconstruction of other roads (0,05 BAM/l).

**) The amount of earmarked road tax to be distributed to users in 2019 under the provisions of the Law on Changes and Amendments to the Law on Payments into the Single Account and Distribution of Revenue⁹ does not fully correspond to the amount of the collected earmarked road tax shown in Table 3 (406,2 million BAM) due to the application of the new model of distribution of collected road tax as of 1st February 2018, according to which the distribution is not performed on a daily basis, but subsequently, at the end of the month for the previous month on the basis of the preliminary / final report of the ITA on collected revenues by type. The distribution of earmarked road tax of 0,10 BAM/l of derivatives according to the old model of daily distribution ended on 31 January 2018, and the distribution of an earmarked road tax of 0,25 BAM/l of derivatives to the Entities and the Brcko District according to the new model started only in March 2018.

Table 4. Projections of indirect tax revenues 2020-2023 in % of GDP, October 2020

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2019	2020	2021	2022	2023
VAT	11,3%	10,6%	10,5%	10,4%	10,3%
Excises	4,3%	3,8%	3,7%	3,7%	3,7%
Customs	0,8%	0,7%	0,8%	0,8%	0,8%
Road tax	1,8%	1,6%	1,6%	1,6%	1,6%
Other	0,1%	0,1%	0,1%	0,1%	0,1%
TOTAL	18,3%	16,8%	16,7%	16,5%	16,4%
Earmarked road tax *)	-1,1%	-1,0%	-1,0%	-1,0%	-1,0%
FUNDS FOR DISTRIBUTION	17,2%	15,8%	15,7%	15,5%	15,4%

Data source for GDP: BHAS, September 2020 and DEP Projections (Macroeconomic Projections 2020-2023, September 2020), GDP by expenditure approach

⁹ Official Gazette of B&H no. 91/17

2.1. Projections for 2020

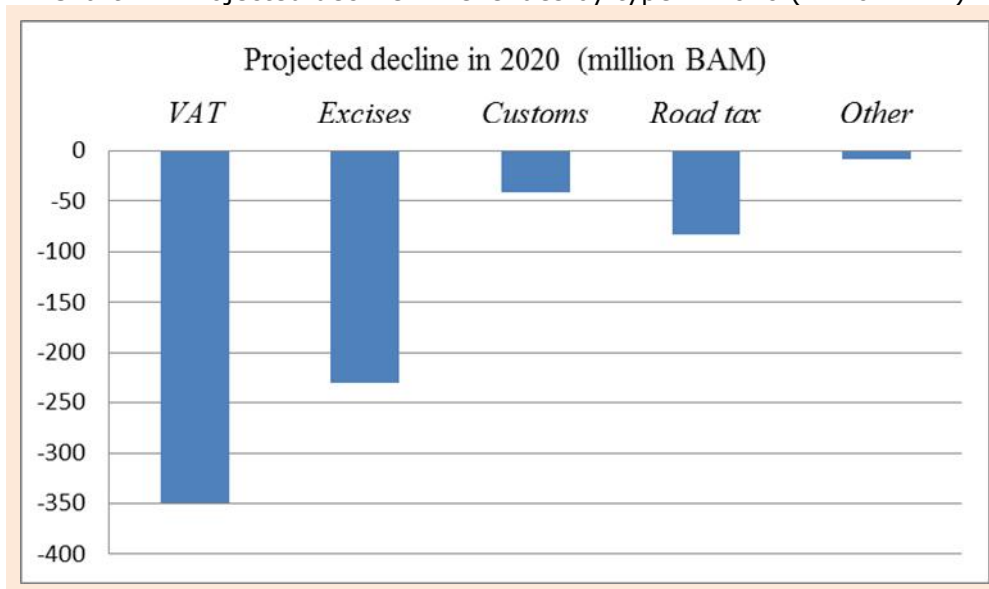
In the first quarter of 2020, the net collection of indirect tax revenues increased by 64,6 million BAM or by 4,4% compared to the collection in the first quarter of 2019. The first quarter growth rate was even 1,4 p.p. above the projected annual growth rate for 2020 in MAU projections from October 2019. Positive trends in the first quarter were followed by a sharp decline in revenue collection, given the situation caused by the coronavirus pandemic. Already in April, net revenue collection fell by 22,2%, while a record decrease of 33,1% was recorded in May.¹⁰ After high rates of revenue fall in April and May, there were improvements in June and July, with lower rates of revenue decline (4,6% and 3,5%, respectively). In August and September appeared again a large deterioration in rates of decline (20,8% and 14,4%, respectively). At the level of nine months in 2020, the rate of decline in cumulative net collection amounted 10% (Chart 3, Section 1.3.2.)

Having in mind the worsening of the epidemiological situation in B&H and in the EU, it has not been expected the relaxation of restricting measures of the entry of foreign citizens and the diaspora in B&H even by the time of the New Year holidays. Moreover, there are possible more rigorous measures, not only at the borders, but in the country as well, in the form of limiting the number of people at gatherings, catering facilities, etc., which can lead to a reduction in remittances, employment, income and consumption.

Due to the latest trends in the collection of revenues from indirect taxes, and the current epidemiological situation in B&H and the surrounding area, it is realistic to expect a decline in revenues in the last quarter of 2020. The projected decline in revenues in the absolute terms is 711,6 million BAM, which is 10,9% less than in 2019. This would be the largest decline in revenues from indirect taxes since the establishment of the ITA. If this projection is realized, the rate of decline in revenues would be higher than the rate of decline in revenues from indirect taxes in the "crisis" year 2009 (-9,9%).

Chart 25 shows the share of individual types of revenues in the total projected absolute decline (in million BAM).

Chart 24. Projected decline in revenues by type in 2020 (million BAM)



Source: MAU projections, October 2020

¹⁰ Comparison with the corresponding months of the previous year.

2.1.1. VAT

Based on revenue collection data for the first four months, projected negative effects of the crisis caused by the coronavirus pandemic and projections of consumption, import, and export in 2020, it is expected the VAT revenue collection in the amount of 3.673,1 million BAM, which is lower by 8,7% than the collection in the previous year.

2.1.2. Excises and road tax

The projected amount of total revenues from excises in 2020 is 1.303,3 million BAM, which is 15,0% less than in 2019. The projected amount of revenues from road tax is 567,3 million BAM, which is 12,7% less since its realization in 2019.

Revenues from excises on oil derivatives and road taxes

The dynamics of consumption of oil derivatives is extremely important for indirect tax revenues. Revenues from excises on oil derivatives and road tax accounted for 18% of net revenues from indirect taxes in 2019. With the corresponding VAT revenues, that percentage was even higher and amounted to 21%. The total consumption of oil derivatives in the period from 2008 to 2019 increased by 17,5%. In the same period, consumption of diesel fuel increased by as much as 53,1%, while gasoline consumption decreased by 47,6%. The other derivative consumption, consisting mostly of heating oil, was by 35,6% higher in 2016 than in 2008. After that year, it began to decline sharply, so that in 2019 it was lower by 49,2% compared to 2008.¹¹

The past two years have been characterized by strong changes in the market of oil derivatives due to the effects of changes in the Law on Excises in 2017 (applicable from February 1, 2018).¹² There were significant changes in the structure of the base¹³ of excise duty on oil derivatives during the mentioned period. The share of heating oil in the base decreased significantly, from 5,0% in 2017 to 3,4% in 2019. The share of kerosene, as a component with the lowest aggregate tax rate (comprised of road and excise tax rates) increased from 1,4% to 2,1%.¹⁴ Despite the lower excise duty rate (0,3 BAM/l), the high share of diesel in the base together with stable consumption growth rates has led to this type of derivatives generating the largest amount of excise tax revenue growth in the period 2017-2019. The component of unleaded petrol consumption (as well as its share in the excise duty base) decreased and had a negative impact on the growth rate of revenues in the observed period. The total excise tax base, i.e. the amount of taxed derivatives, increased by only 1,5% in the aforementioned period. That rate is well below the estimated two-year growth rate of real GDP and consumption, and we can look for reasons in the rise in derivative prices.¹⁵

¹¹ More on the consumption of oil derivatives in B&H in Regoje A., "Statistical analysis of the consumption of oil derivatives", MAU Bulletin no. 183/184, September / October 2020

¹² Changes in the excise policy on oil derivatives and road tax from 2017 refer to: increase in the excise rate on heating oil from 0,30 to 0,45 BAM/l; introduction of excise tax on biofuels and bio-liquids (0,30 BAM/l); increase in the rate of earmarked road tax from 0,10 to 0,25 BAM/l (with separation of rates and funds by purpose for highways and other roads); and change in the road tax base in terms of inclusion biofuels and bio-liquids, and liquid petroleum gas for motor vehicles („Official Gazette of B&H" 91/17).

¹³ Terms "base" for excises and "consumption" of derivatives refer to the quantities calculated by the MAU. For excise duties it includes the amount of imported oil derivatives and biofuels and the amount of domestic derivatives and biofuels placed on the market. The amounts from excise declarations were taken with the time lag $m-1$, in order for the base to be correctly presented in accordance with the provisions of the Law on the occurrence of the obligation and payment of excise duties.

¹⁴ It should be borne in mind that these two categories of derivatives could not have a significant impact on the dynamics of the total base and revenues, given their low weight in the base.

¹⁵ In 2019, there was a 2,7% increase in net excise tax revenue on oil derivatives compared to 2017 (an adjusted amount that takes into account the collected excise tax revenues through offsetting with VAT claims).

The picture is quite different in the case of road tax revenues. As much as 70,1% more revenue was collected in 2019 than in 2017. This is a multiplied effect of a 60% increase in the rate of taxation and a 6,3% increase in tax base in the aforementioned period.¹⁶ Changes in the structure of the base, in terms of the components which had been included in 2017, had no effect as in the case of excise duties, given the unique rate of taxation of derivatives by road tax. An exception is the extension of the base to biofuels and liquid petroleum gas for motor vehicles, which has generated additional revenue.

The pandemic of the corona virus has brought further turbulences to the oil derivatives market. Quarantines and isolations, reduced business and private travel, curfew, restrictions in gathering and in transportation between cities led to a loss of excise revenues during the restriction period. Consumption of basic foodstuffs is rigid downwards, while the consumption of many other goods (e.g. furniture) is assumed to be partially offset in the period after relaxation of the measures. On the other hand, a significant part of the consumption of oil derivatives in the period of implementation of containment measures will be permanently lost and irrecoverable.

Based on the available data on the consumption of derivatives by type, we see that the consumption of diesel fuel, after increase of 2,7% in the first quarter of 2020, fell by 11,6% in the second quarter of 2020.¹⁷ The component of unleaded petrol consumption recorded a decline in the first quarter of 2020 (4%), while in the second quarter the decline has deepened to a high 28,3%. According to the ITA's preliminary report on revenue collection, total gross revenues from excises on oil derivatives and road taxes fell both at equal rates of 11,2% by the end of September. According to the currently available data, the share of refunds of excise duties on domestic oil and oil derivatives (heating oil) in gross revenues from excises on oil derivatives increased by 0,4 percentage points in 2020.

According to European Central Bank (ECB) projections, crude oil prices are expected to fall from 64,0 USD per barrel in 2019 to 42,8 USD per barrel in 2020 (Table 5).

Table 5. Crude oil price projections, \$/barrel

	2019	2020	2021	2022
Crude oil price projections	64,0	42,8	47,5	49,2

Source: ECB, "ECB staff macroeconomic projections for the euro area", Sept 2020

Based on all the above, and taking into account the projections of real macroeconomic indicators, it is expected a decline in net revenues from excise duties on oil derivatives and road tax of 13,8% and 12,7%, respectively, in 2020 compared to collection in 2019 .

Revenues from excises on tobacco

Tobacco companies increased retail prices of cigarettes in early 2020, although there was no increase in specific excise duties on cigarettes. The increase was justified by the losses incurred in previous years. On average, in eight months, retail prices of cigarettes increased by 5% compared to the weighted average price in 2019. Tobacco companies are expected to maintain current prices by the end of the year, since any price increases, in a situation of sharp drop in demand for cigarettes at the time of the coronavirus pandemic, would be counterproductive. Having in mind the worsening epidemiological situation in B&H and the EU, where the measures to combat coronavirus are not expected to relax by the end of the year, it is realistic to expect the

¹⁶ The reasons for higher base growth than in the case of excise taxes were: (1) decrease in consumption of heating oil, which was one of the goals of the amendments to the Law, in order to reduce abuses in the use of heating oil as fuel; (2) the extension of the road tax base on liquid petroleum gas, which had not been included in the road tax base in 2017; (3) a decline in the realization of the exempted diesel fuel used for the needs of mines, thermal power plants and railways in the observed period.

¹⁷ Comparison with the same quarters of 2019.

continuation of current unfavourable trends in cigarette market value and cigarette quantities, expressed by the number of issued excise stamps. Having the above assumptions in mind, it is expected that 16,7% less excise duties on tobacco products will be collected in 2020 compared to the collection in 2019.

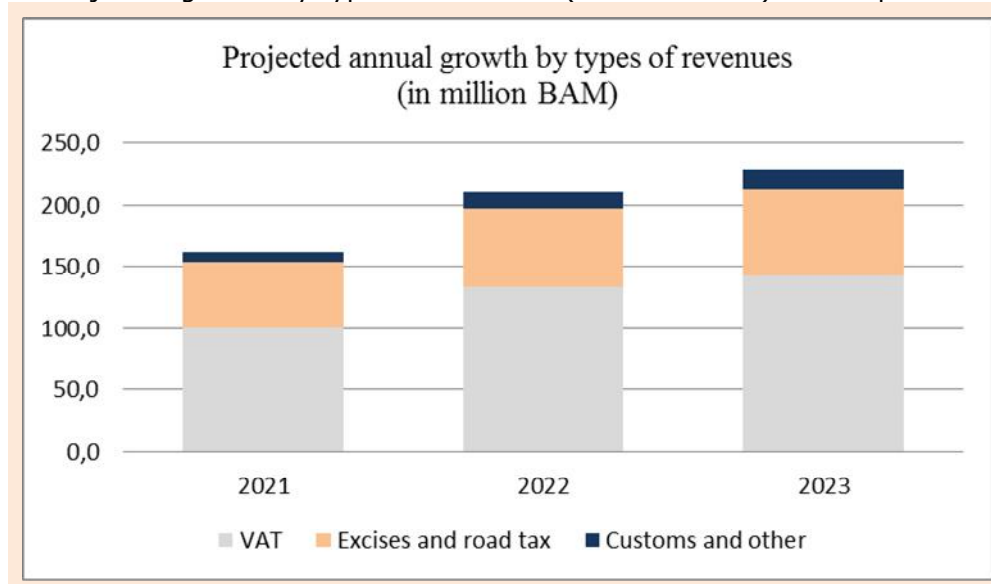
2.1.3. Customs

According to the Agency for Statistics of B&H, imports of goods in B&H fell by 17%¹⁸ in the first eight months. Gross customs revenues fell by 15,3% in the same period. According to a preliminary ITA report, by the end of September, the decline in gross customs revenues had been slightly reduced to 14,6%. Given the current epidemiological situation, no significant improvement in customs revenue trends is expected by the end of the year. The projected amount of net customs revenues in 2020 is 259,0 million BAM, which is 13,9% below the outcome in 2019.

2.2. Projections for the period 2021-2023

Given the uncertainty surrounding the duration of the coronavirus pandemic, and given the gained experiences about the spreading the virus during the winter and early spring, it is not realistic to expect a recovery in revenue collection before the second quarter of 2021. The projected growth rates of indirect tax revenues for 2021, 2022, and 2023 are 2,8%, 3,5%, and 3,7%, respectively. The projection of revenues in the mentioned period is based on the projected relevant macroeconomic indicators, the historical seasonal collection scheme and the projections of individual categories of revenues for 2020. In contrast to the projected decline in indirect taxes in GDP in the period 2021-2023¹⁹ (Table 4, Section 2), the projected revenue share (OMA) in the consumption (DEP) in this period is at a constant level of about 17,7%. Chart 26 shows the projected annual revenue growth by types for the period 2021-2023.²⁰

Chart 25. Projected growth by types of revenues (in million BAM) for the period 2021-2023



Source: MAU projections, October 2020

¹⁸ BHAS, September 21, 2020.

¹⁹ The decline in indirect taxes in GDP is explained by the decline in the projected share of consumption in GDP in 2022 and 2023 (DEP) and the fact that certain categories of income are not charged *ad valorem*.

²⁰ As in the case of 2020, projections are made on a cash basis. It is assumed that there will be no offsetting the liabilities for road tax by VAT credits in 2019. If they eventually appear, this can be reflected in the deviations of collection from projections by type of revenue, rather than the total collection of indirect taxes.

The largest generator of the surplus of indirect taxes revenues in the mentioned period is VAT, given its significant share in revenues and planned stable growth rates in line with consumption projections. In all three of these years, VAT revenues generate over 60% of absolute annual projected revenue growth.

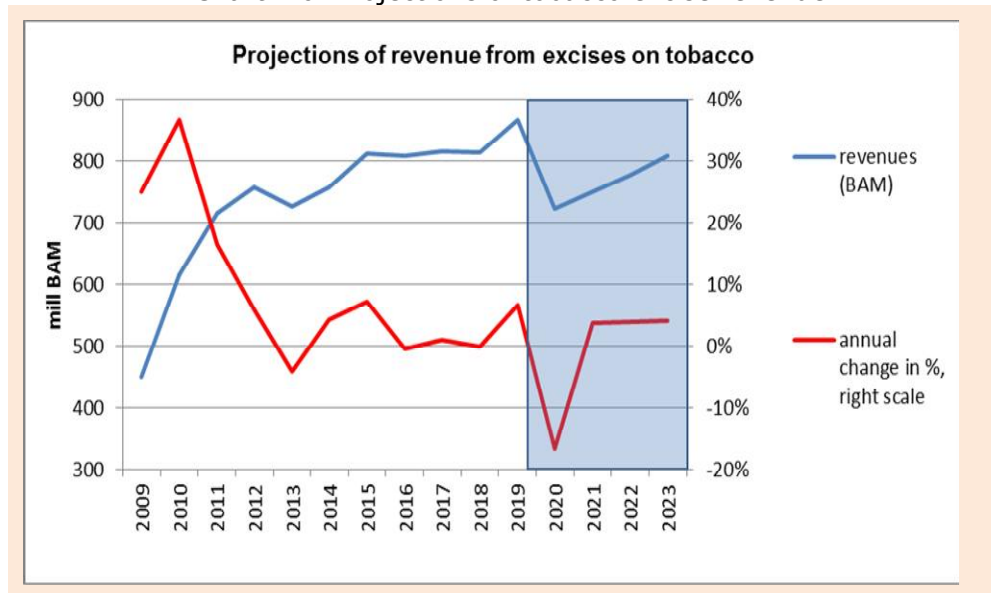
Revenues from excises together with revenues from road tax make up about 1/3 of the projected absolute growth of total revenues from indirect taxes in the period 2021-2023. Revenues from excises on tobacco, on the other hand, are the largest generator of projected absolute growth in excise revenues. In 2021, two thirds of the absolute growth of net excise revenues refers to excises on tobacco, while in the next two years this share is slightly lower and amounts to about 63%.

Given that no change in cigarette taxation policy is expected in 2021, it is assumed that tobacco companies will keep the retail prices of cigarettes from 2020, in order to avoid further erosion of sales. On the other hand, the taxation policy of smoking tobacco in 2021 is expected to change. The increase in cigarette prices in 2020 has resulted in an increase in the weighted average price, which created basis for the increase in specific excise tax on smoking tobacco in 2021.²¹ An increase in the excise tax burden on smoking tobacco in conditions of maintaining the same tax burden on cigarettes would reduce the gap between the prices of smoking tobacco and cigarettes, which may result in smoking tobacco consumers shifting to cigarette smoking again, and lower-income people giving up on more expensive tobacco smoking and shifting to the black market of tobacco and cigarettes. Similar circumstances occurred in 2020, when the excise policy for cigarettes from 2019 was maintained, and the specific excise tax on smoking tobacco was increased.

Current trends in the collection of excise duties on cut tobacco in 2020 show a strong increase in the taxed quantities of cut tobacco and the amount of collected excises, which means that there has been a migration of consumers from the cigarette market to the smoking tobacco market. A similar scenario can be expected in 2021. Under the conditions that the coronavirus pandemic is contained and the much-needed stabilization of the market and consumption in 2021 provided, while keeping retail cigarette prices at the level of 2021 and unchanged excise policy, the value of the cigarette market is expected to follow the macroeconomic projections of consumption. Under the above assumptions, a slight increase in the collection of excise duties on tobacco products in 2021, 2022 and 2023 is expected at rates 3,6%, 3,9% and 4%, respectively (Chart 27). An important factor in realization of the projections of excise collection is the continuous fight against the black market of cigarettes and tobacco in B&H.

²¹ The Law on Excise Duties prescribes a methodology for calculating the specific excise duty on smoking tobacco, which is based on the weighted average price of cigarettes and the minimum excise duty on cigarettes. It is expected that the Governing Board of the Indirect Taxation Authority will make a decision on determination the specific excise duty on smoking tobacco for 2021 by the end of October 2020.

Chart 26. Projections of tobacco excise revenue



Source: MAU projections, October 2020

3. Differences from previous projections of indirect taxes

Projections of indirect tax revenues are closely related to the projections of macroeconomic indicators of DEP. Any deviation of these parameters from the projected value represents the risk for revenue projection.

On the other hand, the projections of DEP's macroeconomic indicators are mainly based on the projections of international institutions, and therefore the projections of the European Commission (EC) and the International Monetary Fund (IMF) will be briefly presented here, as well as their revisions before and after the coronavirus pandemic.

3.1. Revision of projections of the international institutions

Projections of the European Commission

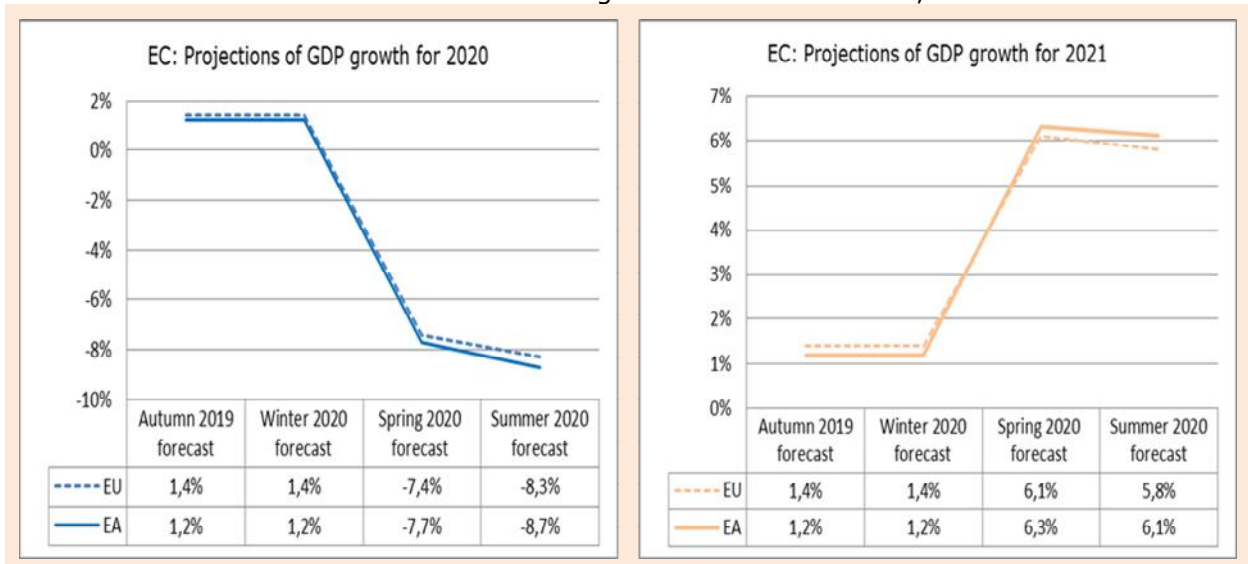
The European Commission (EC) publishes macroeconomic projections for the EU and its members four times a year. The projections are named by the season of publication.²² The EC report from July 2020²³ (hereinafter: *Summer Forecast*) states that the European Union is facing the deepest recession since the Second World War, and that, during the period of implementation of the strictest restrictions, the euro area economy has operated at between only 70 to 75 percent of its capacity. Although measures were introduced in most countries in mid-March, data show that GDP fell by 3,6% in the euro area and by 3,2% in the EU in the first quarter. In the EC Summer Forecast, a further downwards revision of the economy growth rate was performed in comparison with their previous projections. The last four EC projections of the EU economy growth for 2020 and 2021 can be seen from Chart 28. The x-axis shows the time of publishing the EC projections, while the y-axis shows the projected GDP growth rate for 2020 (left) and 2021 (right). We can see that GDP growth projections for 2020 have been revised downwards from + 1,4% (Autumn

²² The European Commission publishes two comprehensive forecasts (spring and autumn) and two interim forecasts (winter and summer) each year; <https://ec.europa.eu/>

²³ European Commission, European Economic Forecast, Summer 2020 - interim

Forecast, 2019) to -8,3% (Summer Forecast, 2020). The direction of the revision of the EU GDP growth projections for 2021 went in the opposite direction, from + 1,4% (Autumn Forecast, 2019) to + 5,8% (Summer Forecast, 2020).

Chart 27. EC estimates for GDP growth in the EU and EA, 2020 and 2021



Source: Presentation of the MAU based on the EC projections

It is stated in the EC Summer Forecast that their projection is based on a number of assumptions, the most important of which are that the biggest negative impact of the coronavirus pandemic has happened in the second quarter of 2020, and that there will be no new big waves of infections. The restrictive measures are assumed to be gradually abolished in the EU, and that there will be no need for the return to strict measures from the beginning of the pandemic. It is also noted that continuous measures of social distancing are included in the consequences on sectors where interpersonal contact is inevitable.

Projections of the International Monetary Fund

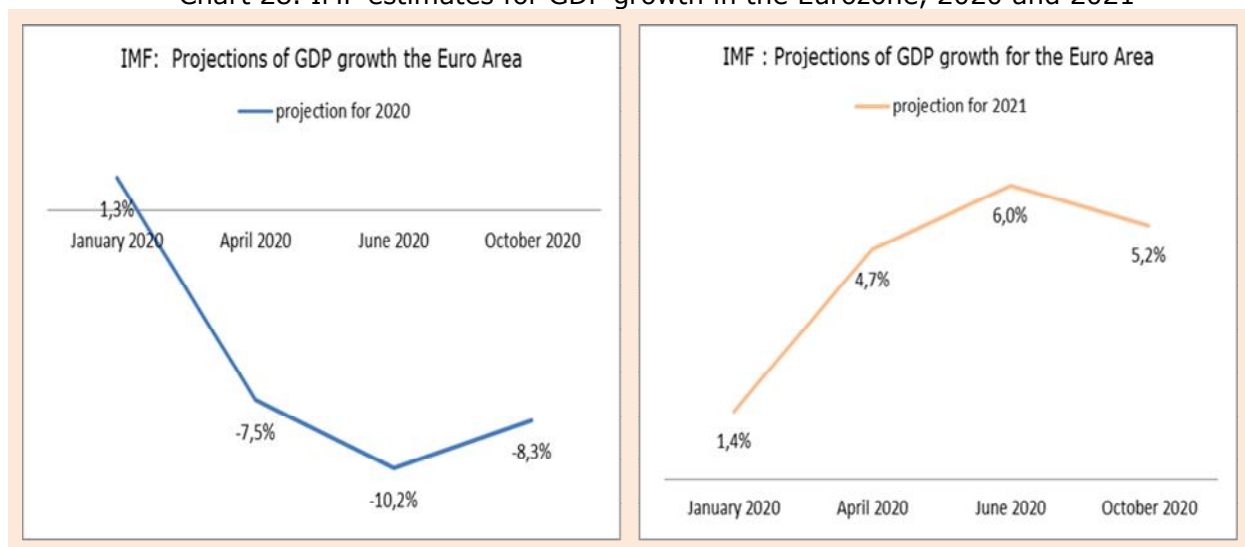
The International Monetary Fund (IMF) projections from June 2020²⁴ were also more pessimistic than their previous projections. The decline in the world economy was projected then at 4,9% for 2020. That is 1,9 percentage points higher decline than the one forecasted in the IMF's April projections. The GDP growth projection for the Eurozone was negative and amounted to -10,2%. In relation to the IMF's April projections, it was revised by -2,7 percentage points, while in relation to their January projections by as much as -11,5 percentage points.

In October 2020, the IMF published its new projections²⁵, which predict a slightly lower real decline rate in the world economy (4,4%), in comparison with the rate projected in the June edition (4,9%). It is explained that the revision of the projections for 2020 was performed due to a slightly better outcome in the second quarter than forecasted in the June edition, which was achieved mainly in developed economies, as well as due to the signs of faster recovery in the third quarter of 2020. For the year 2021, a slightly milder growth rate of the world economy is projected (5,2%), compared to the projected growth rate in June (5,4%). The GDP growth projection for the Eurozone in 2020 has also been revised in October projections, from -10,2% to -8,3%, and for 2021 from 6,0% to 5,2%.

²⁴ IMF, World Economic Outlook Update, June 2020

²⁵ IMF, World Economic Outlook, October 2020

Chart 28. IMF estimates for GDP growth in the Eurozone, 2020 and 2021



Source: Presentation of the MAU based on the EC projections

The IMF projections are based on a number of assumptions, and include the continuation of social distancing in 2021, with the gradual fade of this measure to combat the coronavirus as the vaccination coverage expands and the therapeutic response improves.²⁶

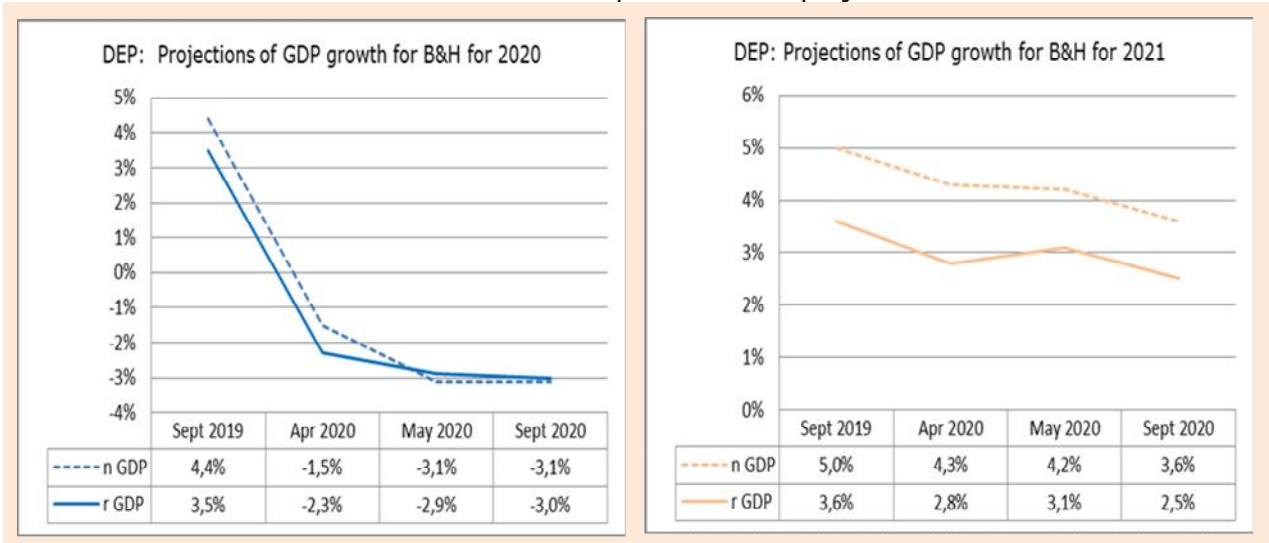
According to the latest projections from October, the IMF projects for Bosnia and Herzegovina a real decline in GDP of 6,5% in 2020, and growth of 5% in 2021.

3.2. *DEP, revision of macroeconomic indicators projections for B&H*

The Directorate for Economic Planning of B&H (DEP) has revised the projections of macroeconomic indicators several times since September last year (Chart 30). Before the appearance of the coronavirus (projections from September 2019), a real GDP growth rate of + 3,5% had been planned for 2020. With the onset of the coronavirus pandemic, in April this year, the DEP drastically lowered the projection of real GDP growth for 2020 to -2,3%. In May, this projection was further revised to -2,9%, and in September to -3,1% (Chart 30, left). DEP's projections for the growth of the B&H economy in 2021 have been revised downwards several times since September last year (Chart 30, right).

²⁶ Ibid, p. 7. and 8.

Chart 29. DEP: the latest and previous GDP projections for B&H

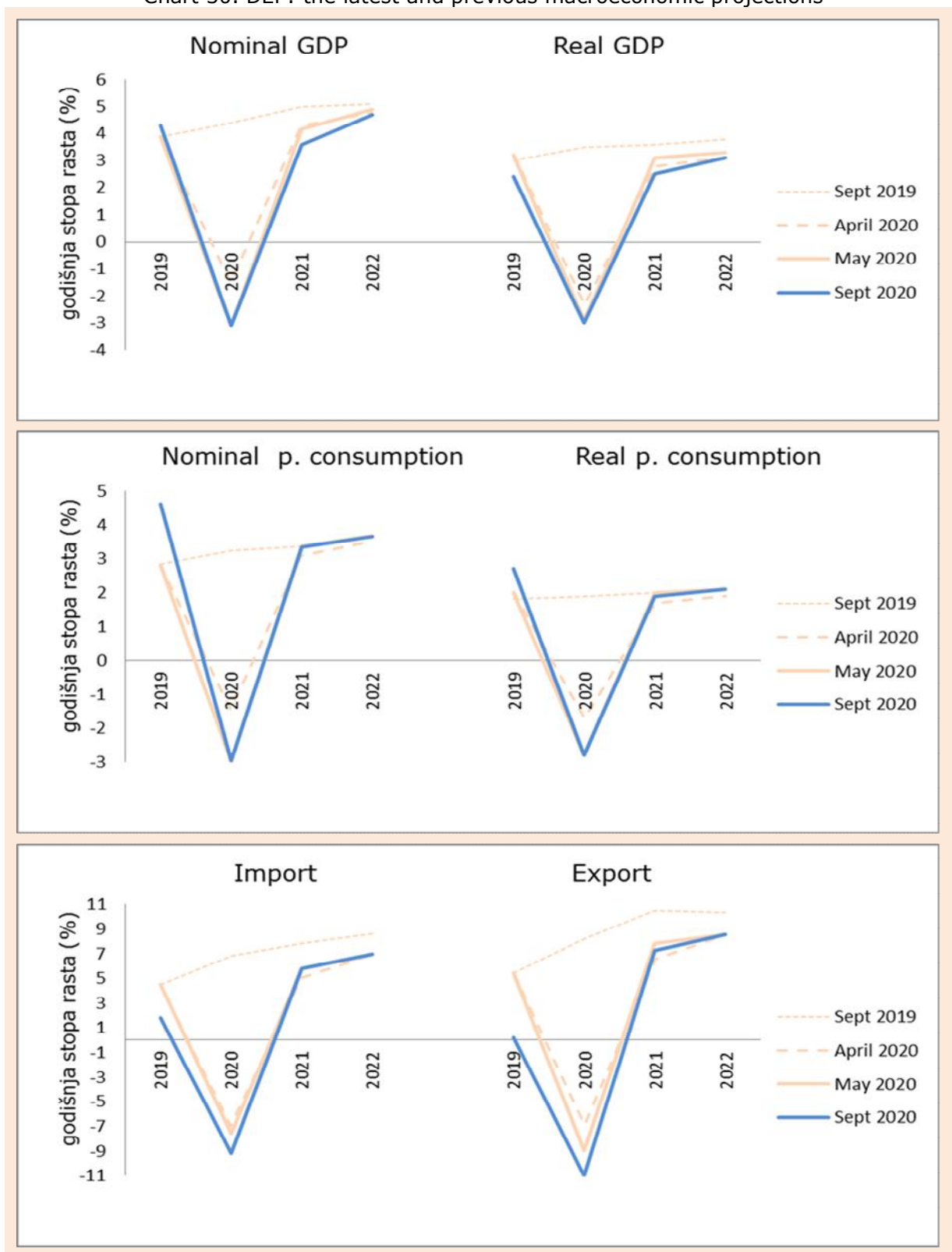


Source: Presentation of the MAU based on the EC projections

Chart 31 shows the DEP's projections of GDP, imports, exports and private consumption, which have been made since September last year. The corrections in the projections of GDP components in the past period can be clearly seen from it. As a consequence of coronavirus pandemic, in the period from September 2019 to September 2020, the projections of nominal growth rates of imports were revised downwards by 16 percentage points, exports by 19 percentage points, and private consumption by over 6 percentage points. Investment growth projections were revised by as much as 21 percentage points, from + 10,2% to -11,3%. Only government consumption projections have been revised upwards from + 2,1% to + 2,9% because "during the pandemic, increased involvement of institutions in the the measures of protecting public health and remediation of the economic consequences of Covid-19 is expected." ²⁷

²⁷ DEP, Macroeconomic projections, September 2020

Chart 30. DEP: the latest and previous macroeconomic projections



Source: Presentation of the MAU based on the EC projections

3.3. MAU, revision of projections of indirect tax revenues

Differences in relation to the projections from October 2019

In line with current revenue collection trends and the revision of macroeconomic projections (DEP), MAU continuously revises its indirect tax revenue projections. Compared to the projections made a year ago (MAU, October 2019), based on the then projected nominal GDP growth of 4,4% (DEP, September 2019), the projected amount of indirect tax collection has now been revised by - 878,5 mil BAM (MAU, October 2020).

Differences in relation to the projections from June 2020

Compared to previous projections of indirect tax revenues (OMA, June 2020), projections for 2020 have now been revised by -427,6 million BAM (Table 6).

Revenues from VAT were revised by -176,5 million BAM. The negative correction refers entirely to the revenues from VAT on imports. The correction is explained by the fact that DEP's projection of a decline in imports at a rate of 7,6% in 2020 was used as an assumption in June projections, while, by the end of August, according to data of the Agency for Statistics of B&H, imports of goods into B&H fell by a high 17%. Based on the current epidemiological situation in B&H and the surrounding area, we cannot expect a recovery in imports in the last quarter of 2020 either.

Out of the total correction of -190,3 million BAM on the projections of excises for 2020, as much as -139,6 refers to revenues from excises on tobacco. The June projections of excises on tobacco products were based on the positive trends in excise collection in the first four months, which had been *de facto* a consequence of the perception of tobacco companies regarding the duration of the pandemic and optimistic expectations that the economy, employment and consumption would recover at the middle of the year. Although, due to the lack of exact historical data, it was assumed that the consumption of cigarettes by non-residents and the diaspora has a certain share in total consumption, in a situation when non-residents and diaspora are prevented from coming to B&H, bad current trends in excise duties indirectly indicate that the real impact of the external cigarette consumption had been greatly underestimated. When adapting to the local demand, the tobacco companies have been reducing the placement of cigarettes, which then resulted in a significantly lower collection of excise revenues than projected. The result of these assumptions is a large discrepancy in relation to projected excise revenues.

Table 6. Differences in proj. for the period 2020-2023 in relation to the projections from June

	In million BAM					in % of GDP *)			
	2020	2021	2022	2023		2020	2021	2022	2023
VAT	-176,5	-205,8	-218,6	-235,6		-0,5	-0,6	-0,6	-0,6
Excises	-190,3	-206,1	-211,1	-214,5		-0,5	-0,6	-0,6	-0,5
Customs	-14,7	-20,3	-27,4	-36,7		0,0	-0,1	-0,1	-0,1
Road tax	-47,2	-68,8	-70,8	-72,4		-0,1	-0,2	-0,2	-0,2
Other	1,1	-2,0	-3,1	-4,3		0,0	0,0	0,0	0,0
TOTAL	-427,6	-502,9	-531,0	-563,5		-1,2	-1,4	-1,4	-1,4

*) GDP projection, DEP, September 2020

Compared to the projections from June 2020, the differences in the projections of revenues from indirect taxes for 2021, 2022 and 2023 are -502,9 million BAM, -531,0 million BAM and 563,5 million BAM, respectively. The differences arose due to corrections in the projections of collection by type for 2020, which are the basis for projections for the next period, and due to corrections of macroeconomic indicators (DEP), compared to those used in June (Chart 31).

4. Risks

Considering the huge unknowns at the time of preparing the projections about the severity and duration of the shock caused by the corona virus pandemic, and the assumptions used that the crisis will be overcome in the short term (DEP, macroeconomic projections), **we point out that there are significant risks for the realization of projections of indirect tax revenues, where the risks of worse outcome predominate.** Given the basic assumptions of indirect tax projections and the overall economic conditions in B&H and in the world, the realization of the projected level of revenues from indirect taxes in the period 2020-2023 is subject to the following risks: (1) all risks for the realization of the projected macroeconomic indicators (DEP) and (2) risks related to the collection of revenues from indirect taxes and the fight against the gray economy.

Projections of indirect tax revenues are closely related to the projections of macroeconomic indicators of DEP. All risks mentioned by DEP in their projections automatically represent risks for the projections of indirect taxes, since any deviation of the realization of DEP parameters from their projected values inevitably leads to deviations from the projected indirect tax revenues. The DEP states that the risks to their projections can be classified into two groups, external and internal, with external risks much more certain and influential in the direction of economic growth in B&H. The coronavirus epidemic is the primary risk for the outturn of DEP projections. On the other hand, they mention internal challenges, i.e., internal risks in Bosnia and Herzegovina (a complex system of decision-making, slow pace of economic reforms in the country) as a threat to the realization of their projections. They also state that any delay in the process of government formation would adversely affect the planned dynamics of public investments and overall economic growth. The medium term risks for the period 2021-2023 according to the DEP refer to "migration of the population from B&H, especially young, educated and qualified staff, which could result in reduced productivity and slower GDP growth than projected."²⁸

Risks that may jeopardize the realization of indirect tax revenue projections in the area of policy and administration of indirect taxes include the following:

- The weakening of the measures to combat black market of tobacco products after completion of the harmonization of tax burden on cigarettes in B&H with the EU standards;
- Weakening of the fight against VAT fraud, especially in the field of refunds, which, in a situation of falling employment and illiquidity of taxpayers become attractive for fraud;
- Changes in indirect taxation policy that could lead to a significant drop in revenue, such as differentiated VAT and excise rates;
- Change of the excise duty collection regime on the imported tobacco products, which implies collection at the time of importing tobacco products instead of at the moment of taking over the excise stamps. The shift from the old to the new collection regime would cause large one-time revenue losses, which, given the significant share of excises on tobacco products in total indirect taxes, would cause a disruption in the financing of budget users.

²⁸ Ibid. p.7

Trade of goods and services for the period January - September 2020

(Author: Mirjana Popovic, Expert Advisor - Macroeconomist)

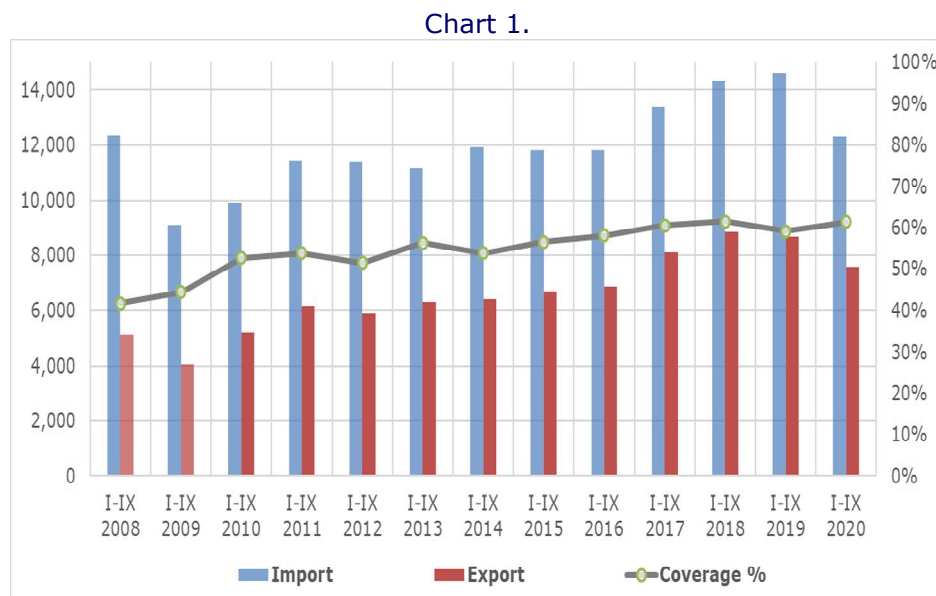
With analysis of trade of goods and services in Bosnia and Herzegovina (hereinafter: BiH) with other countries, for the period January - September 2020 (hereinafter: I-IX 2020), emphasis is placed on the impact of current global trends in foreign trade after the introduction of preventive measures combating and preventing the spread of the coronavirus pandemic in the country. This analysis is a continuation of analyzes published in previous issues of the Department's bulletin. For this analysis, the period of the first nine months of the current year was used, as well as the same period of previous years.

The data presented in the analysis include the total foreign trade shown by the most important regions (EU²⁹, CEFTA³⁰, EFTA³¹, and Asian Developing Countries), trade with the most important foreign trade partners, as well as trade by product type.

1. Main trends in foreign trade

In the first nine months of 2020, B&H recorded a decline in foreign trade. Exports decreased by 12.6%, while imports decreased by 15.8% compared to the first nine months of the previous year. The coverage of imports by exports is 61.5% and is higher by 2.2 p.p., compared to the same period last year.

Chart 1 shows the trends of B&H foreign trade for the first nine months in the period 2008-2020. The values of imports and exports in millions of BAM (left vertical scale) and the percentage values of the coverage of imports by exports (right vertical scale) for the observed period are presented.



Source: Agency for Statistics of B&H, OMA review

²⁹ European Union

³⁰ Central European Free Trade Agreement - CEFTA (Albania, B&H, Montenegro, Northern Macedonia, Moldova, Serbia and UNMIK / Kosovo)

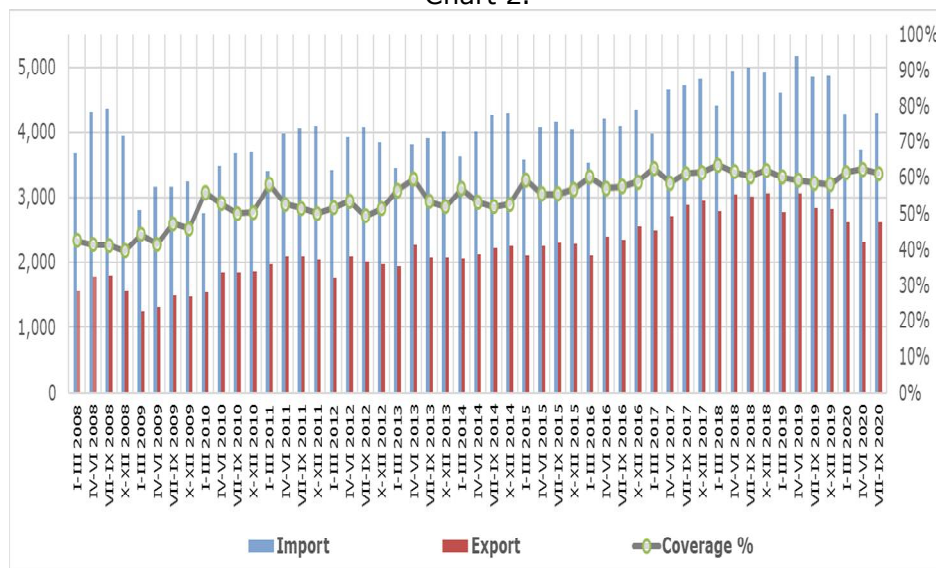
³¹ European Free Trade Association uniting the markets of Switzerland, Norway, Iceland and Liechtenstein

Although in the first nine months of this year there was a decline in the volume of foreign trade, in this period there was a total reduction of the foreign trade deficit of 20.4% compared to the same period last year. Given that imports decreased due to extraordinary circumstances, the reduction of the foreign trade deficit cannot be viewed on the positive side. Due to the measures taken to combat the spread of coronavirus, the reduction of the foreign trade deficit is a consequence of the decline in overall foreign trade activity.

Chart 2 shows the quarterly movement of imports and exports, and the coverage of imports by exports in the period from the first quarter of 2008 to the third quarter of 2020 (I-III 2008 - VII-IX 2020). Seasonal oscillations are visible at the beginning of each year. Until the current year, the volume of foreign trade of B&H during one calendar year was the lowest in the first quarter of each year. However, the introduction of measures to combat the coronavirus pandemic in early March caused the most significant reduction in imports and exports in the second quarter of this year.

Thus, in the second quarter of this year, a smaller volume of foreign trade was recorded compared to the first quarter, while until this year the trend was an increase in imports and exports in the second quarter compared to the first quarter. After the mitigation, i.e. "easing" of measures, in the third quarter there was a slight increase in the volume of foreign trade, and imports and exports were recorded at the level of the first quarter. Imports in the third quarter compared to the second quarter increased by 15.2%, while exports increased by 13.2%.

Chart 2.



Source: Agency for Statistics of B&H, OMA review

Table 1 shows the percentage of increase/decrease in foreign trade on a monthly basis for the first nine months of 2020, compared to the same period in 2019.

Table 1.

	Jan 2020 / Jan 2019	Feb 2020/ Feb 2019	Mar 2020/ Mar 2019	Apr 2020/ Apr 2019	May 2020/ May 2019	Jun 2020/ Jun 2019	Jul 2020/ Jul 2020	Aug 2020/ Aug 2020	Sep 2020/ Sep 2020	Q3 2020/ Q3 2019
Export	0.0	-0.3	-14.2	-32.7	-28.3	-10.8	-13.1	-8.2	-0.7	-12.6
Import	-4.4	1.2	-16.3	-35.2	-34.6	-11.9	-13.4	-14.4	-5.7	-15.8
Volume	-2.6	0.6	-15.6	-34.3	-32.3	-11.5	-13.3	-12.2	-3.8	-14.6
Coverage	4.5	-1.5	2.5	3.9	9.5	1.3	0.4	7.2	5.3	3.8
Deficit	-12.9	3.4	-19.0	-38.9	-42.8	-13.7	-13.9	-22.0	-14.1	-20.4

Source: Agency for Statistics of B&H, OMA review

The table shows that global and national virus control measures have led to a decline in activity and consumption in the country, which has resulted in a decline in the total volume of foreign trade. Due to the closure of borders, a significant decline in imports and exports was recorded in March compared to the same period last year. March officially represents the beginning of a natural disaster caused by the Covid-19 pandemic in B&H, i.e. a new situation that lasted in the following months, which are included in the analysis. The largest decline in exports and imports was recorded in April and May when pandemic control measures were most rigorous. After a slight "easing" of measures in June, there was a slight decrease in the volume of foreign trade. The same trend continued on a monthly basis in the third quarter.

Table 2 shows the percentage of increase/decrease in foreign trade at the quarterly level for the first three quarters of 2020, compared to the same period in 2019.

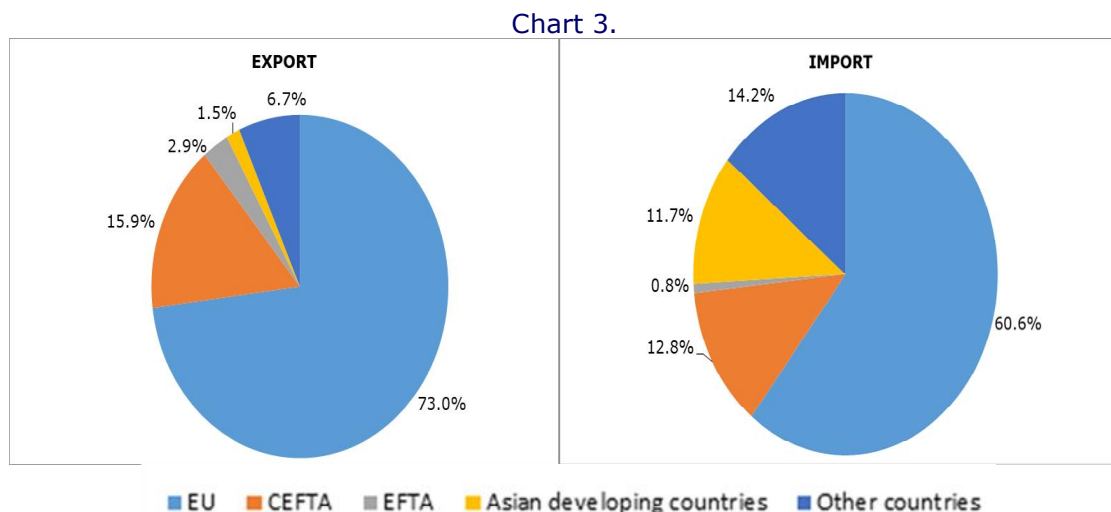
Table 2.

	Q1 2020/Q1 2019	Q2 2020/Q2 2019	Q3 2020/Q3 2019
Export	-5.2	-24.1	-7.3
Import	-7.1	-27.8	-11.2
Volume	-6.4	-26.4	-9.8
Coverage	2.1	5.0	4.4
Deficit	-10.0	-33.0	-16.7

Source: Agency for Statistics of B&H, OMA review

1.1. Foreign trade of B&H towards the most important regions for the period I-IX 2020

Chart 3 shows the percentage of participation of the most important regions in foreign trade with B&H in the first nine months of 2020.



Source: Agency for Statistics of B&H, OMA review

The EU, as the most important partner of B&H in foreign trade, in the first nine months of 2020 participates with 73.0% of exports and 60.6% of imports. Exports to EU countries in the observed period decreased by 13.5%, while imports decreased by 17.8% compared to the same period last

year. The coverage of imports by exports is 74.1%, which is 3.6 p.p. higher compared to the same period in 2019.

In the first six months of the current year, CEFTA member countries participate in foreign trade with B&H with 15.9% of exports and 12.8% of imports. Exports decreased by 14.3%, while imports decreased by 11.8% compared to the same period last year. The coverage of imports by exports is 76.8%, which is by 2.2 p.p. less than in the same period in 2019.

EFTA member countries in foreign trade with B&H in the first six months of this year participate with 2.9% of exports and 0.8% of imports. Exports increased by 8.6%, while imports decreased by 9.8% compared to the same period last year. The coverage of imports by exports is 217.1%, which is 36.8 p.p. higher compared to the same period in 2019.

In the first six months of 2020, B&H realized 1.5% of exports and 11.7% of imports in foreign trade with a group of Asian developing countries. Out of the total realized imports from this group of countries, 69.6% refers to imports from China. Exports decreased by 21.9%, while imports decreased by 7.2% compared to the same period last year. The coverage of imports by exports is 7.8%, which is 1.5 p.p. less than in the same period in 2019.

1.2. B&H foreign trade exchange by the most important foreign trade partners for the period I-IX 2020

Table 3 shows the share in exports to the ten most important foreign trade partners of B&H in the first nine months of 2019 and 2020. Also, the percentage of increase/decrease in exports in the first three quarters of the current year, compared to the same period last year, is shown.

Table 3.

BH EXPORT (% of participation)				
No.	Country	I-IX 2019	I-IX 2020	growth (%)
1	Germany	14.7	15.8	-5.9
2	Croatia	12.4	13.3	-6.3
3	Serbia	11.2	10.9	-14.8
4	Austria	9.8	9.9	-11.6
5	Italy	11.6	9.5	-28.7
6	Slovenia	8.7	9.0	-10.1
7	Montenegro	3.5	2.9	-27.0
8	Turkey	2.4	2.8	1.6
9	Switzerland	2.1	2.6	9.8
10	The Netherlands	2.2	2.3	-6.9
	other countries	21.5	21.1	-14.2
	total	100.0	100.0	

Source: Agency for Statistics of B&H, OMA review

The table shows that the most important partner, i.e. the country to which B&H exported the most in the period January-September 2020, is Germany. It is also the most important export partner of B&H in the EU. In the same period, from the group of CEFTA member countries, B&H exported the most to Serbia, while the largest export from B&H to the countries of the EFTA region was recorded by Switzerland.

The table also shows the percentage of increase/decrease in exports. The indicators presented in the table reflect the unfavorable picture caused by the Covid-19 pandemic, the decrease in exports to the markets of the main trading partners and the decrease in exports to all other markets except the markets of Switzerland and Turkey.³²

Exports to Italy fell the most, 28.7%, due to the early appearance of coronavirus and the early introduction of measures to prevent the spread of the virus in that country, with a significant decline in activity at the beginning of this year, i.e. a drop in total trade. The decline in exports to Italy in the first nine months of the current year was lower by 6.2 p.p. compared to the decline in exports to this country in the first six months of the current year when it was 34.9%. The cause of the recovery is the consequence of the mitigation of measures, and the opening of borders in the third quarter in relation to the measures that were in force in Italy in the second quarter of the current year.

Restrictions on foreign trade have caused a significant drop in exports, which B&H has recorded with other countries as major trading partners.

Table 4 shows the share of imports in B&H according to the ten most important foreign trade partners of the country in the first nine months of 2019 and 2020. Also, the percentage of increase/decrease in imports in the first three quarters of the current year, compared to the same period last year, is shown.

Table 4.

BH IMPORT (% of participation)				
No.	Country	I-IX 2019	I-IX 2020	growth (%)
1	Germany	12.1	12.3	-14.6
2	Italy	11.8	11.5	-17.7
3	Serbia	10.8	11.3	-12.1
4	Croatia	10.4	9.2	-25.7
5	China	7.4	8.1	-7.3
6	Turkey	4.8	5.2	-10.4
7	Slovenia	4.6	4.9	-9.6
8	Austria	3.6	4.0	-6.9
9	Poland	3.0	3.1	-13.7
10	Hungary	2.7	2.7	-16.6
	other countries	28.7	27.7	-18.4
	total	100.0	100.0	

Source: Agency for Statistics of B&H, OMA review

The most important partner, i.e. the country from which B&H imported the most in the period January-September 2020, is Germany. It is also the most important import partner of B&H from the EU. In the same period, out of partners from the group of CEFTA member countries, B&H imported the most from Serbia, while from the group of Asian developing countries the largest import to B&H was recorded from China.

³² The comparison of exports to Turkey in the period January-September 2020 with exports in the same period last year is not relevant due to problems caused by the stagnation of exports last year because of non-ratification of the Free Trade Agreement.

The table also shows the percentage of increase/decrease in imports. The consequence of the decrease in imports in B&H was caused by the stagnation of trade in the observed period, i.e. the decrease in total domestic demand and consumption as well as the decrease in the prices of oil and oil derivatives in the stated period.

The table shows that imports from Croatia fell the most, 25.7%. The decline in imports from Croatia in the first nine months of the current year decreased by 1.5 p.p. compared to the decline in imports from this country in the first six months of the current year when it was 27.2%. As well as the decline in exports, the crisis caused by the early introduction of measures and restrictions caused by the pandemic, affected a significant decline in imports from Italy, 17.7%, as one of the most important foreign trade partners of B&H. Also, imports were reduced from all other major trading partners of the country.

1.1. B&H foreign trade exchange by the type of product for the period I-IX 2020

Table 5 shows the share in exports of the ten most important product groups in the period January-September 2019 and 2020. Also, the table presents the percentage of increase/decrease in exports of certain types of goods.

Out of the ten most important product groups shown, none of the product groups achieved positive exports compared to the same period last year.

Table 5.

EXPORT (% of participation)					
No.	Code	Code description	I-IX 2019	I-IX 2020	growth (%)
1	94	Furniture; bed equipment and like products; lamps and other lighting fixtures	8.7	9.4	-5.9
2	85	Electrical machinery and equipment and parts thereof; sound recording or reproducing apparatus; television sets, etc.	6.9	7.9	-0.8
3	84	Nuclear reactors, boilers, machinery, apparatus and mechanical appliances; their parts	7.1	7.2	-11.2
4	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	8.3	7.0	-25.4
5	73	Iron and steel products	6.7	6.9	-9.5
6	44	Wood and wood products; charcoal	6.5	6.8	-9.1
7	64	Footwear, slippers and the like; parts of these products	6.4	6.2	-15.3
8	28	Inorganic chemical products; organic and inorganic compounds of precious metals, radioactive elements, etc.	5.4	5.0	-19.1
9	39	Plastics and plastic products	4.3	4.9	-1.4
10	72	Iron and steel	5.1	4.2	-28.1
I		In total (1-10)	65.5	65.5	-12.5
II		Other products	34.5	34.5	-12.7
		TOTAL (I + II)	100.0	100.0	

Source: Agency for Statistics of B&H, OMA review

Table 6 shows the share in imports of the ten most important product groups in the period January-September 2019 and 2020. Also, the percentage of increase/decrease in imports of certain types of goods is presented.

Out of the ten most important product groups shown, only one group of products, code 30 - Pharmaceutical products, achieved positive imports compared to the same period last year. Imports of the remaining most important product groups decreased.

Table 6

IMPORT (% of participation)					
No.	Code	Code description	I-IX 2019	I-IX 2020	growth (%)
1	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	14.3	10.0	-41.2
2	84	Nuclear reactors, boilers, machinery, apparatus and mechanical appliances; their parts	8.1	7.9	-18.0
3	87	Vehicles other than railway or tramway rolling-stock and parts and accessories thereof	7.7	6.6	-27.6
4	85	Electrical machinery and equipment and parts thereof; sound recording or reproducing apparatus; television sets, etc.	5.8	6.5	-5.3
5	39	Plastics and plastic products	5.4	6.0	-6.4
6	30	Pharmaceutical products	3.2	3.9	4.8
7	72	Iron and steel	3.2	3.3	-14.8
8	73	Iron and steel products	2.6	2.8	-9.2
9	76	Aluminum and aluminum products	2.2	2.2	-14.7
10	48	Paper and cardboard; products of paper pulp, of paper or of paperboard	1.8	2.0	-9.7
I		In total (1-10)	54.3	51.2	-20.6
II		Other products	45.7	48.8	-90.0
		TOTAL (I + II)	100.0	100.0	

Source: Agency for Statistics of B&H, OMA review

2. Conclusion

Already in March this year, B&H faced the consequences of problems at the global level, which result in a decline in foreign trade due to the closure of borders in the region and EU countries to the region, which are the B&H's most important foreign trade partners. Thus, the foreign trade of B&H, i.e. imports and exports in the first nine months of the current year is in a big decline, with a larger decline in imports than exports of goods and services from the country. One of the most important economic indicators of a country that provides information on the level of competitiveness of its private sector, as well as the level of benefit in production, is the foreign trade balance. Unfortunately, this indicator constantly shows the deficit of B&H.

Given that the coronavirus pandemic caused a decline in overall economic activity and a slowdown in economies globally, in the period January-September 2020, as expected, there was a marked slowdown in foreign trade, and thus a decrease in overall economic activity, compared to the same period of the previous year. Measures such as restriction and cessation of work of business entities, closing of borders, disruption of supply chains, resulted in a decline in domestic and foreign demand, which directly affected the exchange of goods and services. This affected all sectors. Some sectors oriented towards the domestic market are less affected by the new situation than sectors oriented towards the foreign market. Since the appearance of the coronavirus pandemic at the beginning of the current year in China, and its spillover on the European market, B&H companies have faced the problem of procuring raw materials and later difficulties with exports. Many companies lost partners because deliveries did not continue smoothly and

continuously. The new situation has had a particularly negative impact on small or medium enterprises, which are a significant part of the B&H economy.

Trends in foreign trade are still uncertain to forecast, but assumptions are that the pandemic could further jeopardize foreign trade by the end of the year. B&H, as an export-oriented and import-dependent country, does not have a system that would protect the country from external influences, so it is difficult to forecast the country's foreign trade recovery. If the announced new "waves" of the pandemic do not cause stricter measures in the fight against coronavirus, which would result in the re-closure of borders, B&H could expect a slight recovery and increase in foreign trade next year, because the stability and growth of the overall economy significantly depend on major trading partners, primarily EU and CEFTA region countries.